**PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2016**

**NEW ISSUE – BOOK-ENTRY-ONLY** **RATINGS: See "RATINGS" herein.**

*In the opinion of Bond Counsel, assuming compliance with certain tax covenants, interest on the Bonds (i) will be excludable from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions and (ii) will be exempt from income taxation under the laws of the State of Arizona. Interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however such interest will be taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. See "TAX MATTERS" herein for a description of certain federal tax consequences of ownership of the Bonds.*

DRAFT
5-23-16

# $18,200,000*
# CITY OF FLAGSTAFF, ARIZONA
# GENERAL OBLIGATION BONDS,
# SERIES 2016

*Dated:* Date of Initial Authentication and Delivery *Due:* July 1, as shown on the inside front cover page

The General Obligation Bonds, Series 2016 (the "Bonds") of the City of Flagstaff , Arizona (the "City"), will be issued in the form of fully-registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial ownership interests in the Bonds may be purchased in amounts of $5,000 of principal due on a specific maturity date or integral multiples thereof. The Bonds will mature on the dates and in the principal amounts and will bear interest from their date of delivery to their maturity or prior redemption as set forth on the inside front cover page. Interest on the Bonds will accrue from the date of initial authentication and delivery and will be payable semiannually on January 1 and July 1 of each year commencing on January 1, 2017, until maturity or prior redemption.

The Bonds are being issued for the purpose of financing certain improvements in the City and to pay costs relating to the issuance of the Bonds.

**SEE MATURITY SCHEDULE ON INSIDE FRONT COVER PAGE**

The City will initially utilize DTC's "book-entry-only system," although the City and DTC each reserve the right to discontinue the book-entry-only system at any time. Utilization of the book-entry-only system will affect the method and timing of payment of principal of and interest on the Bonds and the method of transfer of the Bonds. So long as the book-entry-only system is in effect, a single fully-registered Bond, for each maturity of the Bonds, will be registered in the name of Cede & Co., as nominee of DTC, on the registration books maintained by ________________________, the initial bond registrar and paying agent for the Bonds. DTC will be responsible for distributing the principal, premium, if any, and interest payments to its direct and indirect participants who will, in turn, be responsible for distribution to the beneficial owners of the Bonds (the "Beneficial Owners"). So long as the book-entry-only system is in effect and Cede & Co. is the registered owner of the Bonds, all references herein (except under the heading "TAX MATTERS") to owners of the Bonds will refer to Cede & Co. and not the Beneficial Owners. See APPENDIX E - "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds will be subject to optional redemption prior to their stated maturity dates as described under the heading "THE BONDS – Redemption Provisions" herein*.

The Bonds will be direct, general obligations of the City, payable as to principal and interest from a continuing, direct, annual, ad valorem tax levied against all of the taxable property located within the boundaries of the City as more fully described herein. The Bonds will be payable from such tax without limit as to rate or amount. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein.

The Bonds will be 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, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed on for the Underwriter by Squire Patton Boggs (US) LLP. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about July __, 2016*.

*This cover page and inside front cover page contain certain information with respect to the Bonds for convenience of reference only. It is not a summary of the issue of which the Bonds are a part. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds.*

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* *Subject to change.*

**RBC CAPITAL MARKETS**

**$18,200,000***
**CITY OF FLAGSTAFF, ARIZONA**
**GENERAL OBLIGATION BONDS,**
**SERIES 2016**

**MATURITY SCHEDULE***
**Base CUSIP®[1] No. 338423**

| Maturity Date (July 1) | Principal Amount | Interest Rate | Yield | CUSIP®[1] No. 338423 |
|---|---|---|---|---|
| 2017 | $610,000 | % | % | |
| 2018 | 630,000 | | | |
| 2019 | 660,000 | | | |
| 2020 | 675,000 | | | |
| 2021 | 725,000 | | | |
| 2022 | 750,000 | | | |
| 2023 | 775,000 | | | |
| 2024 | 800,000 | | | |
| 2025 | 825,000 | | | |
| 2026 | 875,000 | | | |
| 2027 | 900,000 | | | |
| 2028 | 950,000 | | | |
| 2029 | 975,000 | | | |
| 2030 | 1,025,000 | | | |
| 2031 | 1,050,000 | | | |
| 2032 | 1,100,000 | | | |
| 2033 | 1,150,000 | | | |
| 2034 | 1,200,000 | | | |
| 2035 | 1,250,000 | | | |
| 2036 | 1,275,000 | | | |

* *Subject to change.*

(1) *CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2016 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, Bond Counsel, the Financial Advisor, the Underwriter or their agents or counsel assumes responsibility for the accuracy of such numbers.*

## CITY OF FLAGSTAFF, ARIZONA

### CITY COUNCIL

Gerald (Jerry) Nabours, *Mayor*

Celia Bartoz, *Vice Mayor*

Karla Brewster, *Member*

Coral Evans, *Member*

Jeff Oravits, *Member*

Scott Overton, *Member*

Eva Putzova, *Member*

### ADMINISTRATIVE OFFICIALS

Josh Copley, *City Manager*

Shane Dille, *Deputy City Manager*

Barbara Goodrich, *Deputy City Manager*

Rick Tadder, *Management Services Director*

Sterling Solomon, *Interim City Attorney*

Elizabeth Burke, *City Clerk*

### FINANCIAL ADVISOR

Stifel, Nicolaus & Company, Incorporated
*Phoenix, Arizona*

### BOND COUNSEL

Greenberg Traurig, LLP
*Phoenix, Arizona*

### BOND REGISTRAR AND PAYING AGENT

__________________________

# REGARDING THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the City of Flagstaff, Arizona (the "City"), Stifel, Nicolaus & Company, Incorporated (the "Financial Advisor") or RBC Capital Markets, LLC (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 will there be any sale of the City's General Obligation Bonds, Series 2016 (the "Bonds") 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, the Assessor, the Finance Department and the Treasurer of Coconino County, Arizona, 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, the Financial Advisor 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, the Financial Advisor or the Underwriter.

None of the City, the Financial Advisor, the Underwriter, Bond Counsel (as defined herein) or Counsel to the Underwriter are actuaries. None of them have performed any actuarial or other analysis of the City's share of the unfunded liabilities of the Arizona State Retirement System, the Public Safety Personnel Retirement System or the Elected Officials Retirement Plan.

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, the Financial Advisor 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 Bonds 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 Bonds for sale.

The City will undertake to provide continuing disclosure as described in this Official Statement under the heading "CONTINUING DISCLOSURE" and in APPENDIX C – "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 BONDS 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.**

# TABLE OF CONTENTS

# OFFICIAL STATEMENT

## $18,200,000*
## CITY OF FLAGSTAFF, ARIZONA
## GENERAL OBLIGATION BONDS, SERIES 2016

## INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, inside front cover page and Appendices hereto, sets forth information concerning the offering by the City of Flagstaff, Arizona (the "City" or "Flagstaff") of its General Obligation Bonds, Series 2016 in the aggregate principal amount of $18,200,000* (the "Bonds"). See APPENDIX A - "THE CITY – GENERAL AND FINANCIAL INFORMATION" and APPENDIX D – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for certain information regarding the City.

Reference to provisions of State of Arizona (the "State" or "Arizona") law, whether codified in the Arizona Revised Statutes or uncodified, or of the Arizona Constitution, are references to those current provisions. The provisions may be amended, repealed or supplemented.

## THE BONDS

**Authorization and Use of Funds**

The Bonds are being issued by the City pursuant to Title 35, Chapter 3, Article 3 of the Arizona Revised Statutes, and an ordinance adopted by the Mayor and Council of the City on June 7, 2016 (the "Ordinance"). The Bonds will constitute a portion of the bonds authorized by the voters at special bond elections held in the City on May 18, 2004 and November 6, 2012, and will be issued for the following purposes (collectively, the "Projects") and to pay costs of issuance of the Bonds:

(i) $2,200,000* Open Space
(ii) $2,000,000* Forest Health and Water Supply Protection Project
(iii) $14,000,000* Core Services Maintenance Facility

After the sale and delivery of the Bonds, the City will have $9,162,713* principal amount of authorized but unissued general obligation bonds remaining. The City has general obligation bonds currently outstanding, and additional general obligation bonds may be authorized at future special bond elections. See TABLE 10A – Direct General Obligations Bonded Debt Outstanding and to be Outstanding in APPENDIX A – "THE CITY – GENERAL AND FINANCIAL INFORMATION."

**Terms of the Bonds - Generally**

The Bonds will be dated the date of delivery, and will be registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), under the book-entry-only system described herein (the "Book-Entry-Only System"). See APPENDIX E – "BOOK-ENTRY-ONLY SYSTEM." The Bonds will mature on the dates and in the principal amounts and will bear interest from their dated date at the rates set forth on the inside front cover page of this Official Statement. Beneficial ownership interests in the Bonds may be purchased in amounts of $5,000 of principal due on a specific maturity date or integral multiples thereof. Interest on the Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2017 (each an "Interest Payment Date"), until maturity or prior redemption.

See "TAX MATTERS" herein for a discussion of the treatment of interest income on the Bonds for federal or State income tax purposes.

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* *Subject to change.*

**Bond Registrar and Paying Agent**

______________________ will serve as the initial bond registrar, transfer agent and paying agent (the "Bond Registrar and Paying Agent") for the Bonds. The City may change the Bond Registrar and Paying Agent without notice to or consent of the owners of the Bonds.

**Redemption Provisions***

*Optional Redemption*. The Bonds maturing on and prior to July 1, 20__ will not be subject to redemption prior to their stated maturity dates. The Bonds maturing on and after July 1, 20__ will be subject to optional redemption prior to their stated maturity dates, at the direction of the City, in whole or in part in denominations of $5,000 or integral multiples thereof from maturities selected by the City, on July 1, 20__ and on any date thereafter, at a redemption price equal to the principal amount of Bonds being redeemed plus accrued interest to the date fixed for redemption, without premium.

*Notice of Redemption.* So long as the Bonds are held under the Book-Entry-Only System, notices of redemption will be sent to DTC in the manner required by DTC. See APPENDIX E – "BOOK-ENTRY-ONLY SYSTEM." If the Book-Entry-Only System is discontinued, notice of redemption of any Bond will be mailed to the registered owner of the Bond or Bonds being redeemed at the address shown on the bond register maintained by the Bond Registrar and Paying Agent not more than sixty (60) nor less than thirty (30) days prior to the date set for redemption. Notice of redemption may be sent to any securities depository by mail, facsimile transmission, wire transmission or any other means of transmission of the notice generally accepted by the respective securities depository. Neither the failure of any registered owner of Bonds to receive a notice of redemption nor any defect therein will affect the validity of the proceedings for redemption of Bonds as to which proper notice of redemption was given.

Notice of any redemption will also be provided as set forth in APPENDIX C – "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 call for redemption if notice thereof is given as prescribed above.

## SECURITY AND SOURCES OF PAYMENT OF THE BONDS

The Bonds will be direct, general obligations of the City, payable as to principal and interest from ad valorem taxes to be levied on all taxable property within the City without limitation as to rate or amount. Such taxes are to be levied, assessed and collected as other taxes of the City, in an amount sufficient to pay the interest on all the Bonds then outstanding and installments of the principal of the Bonds becoming due and payable in the ensuing year.

The City has paid and may continue to pay the debt service requirements on certain general obligation bonds from water and sewer system revenues which remain after payment of operation and maintenance expenses of the system and revenue bond debt service as indicated in TABLE 10A – Direct General Obligation Bonded Debt Outstanding and to be Outstanding in APPENDIX A – "THE CITY – GENERAL AND FINANCIAL INFORMATION." In the event that these net revenues should prove insufficient, or should the City decide not to pay such debt from such net revenues, such indebtedness would then be paid from such ad valorem property taxes.

General obligation bonds heretofore and hereafter issued by the City have and will have an equal claim with the Bonds upon the proceeds of taxes levied for debt service on the Bonds. See TABLE 10A – Direct General Obligation Bonded Debt Outstanding and to be Outstanding in APPENDIX A – "THE CITY – GENERAL AND FINANCIAL INFORMATION."

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* *Subject to change.*

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

**Sources of Funds**

| | |
|---|---|
| Principal Amount | $18,200,000.00* |
| Net Original Issue Premium *(a)* | |
| Total Sources of Funds | |

**Uses of Funds**

| | |
|---|---|
| Cost of Projects | |
| Deposit to Interest Fund *(b)* | |
| Payment of Costs of Issuance *(c)* | |
| Total Uses of Funds | |

* *Subject to change.*

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

(b) *Reflects net premium from sale of the Bonds that Arizona law requires to be deposited to the Interest Fund.*

(c) *Includes compensation and costs of the Underwriter (as defined herein) with respect to the Bonds.*

## ESTIMATED DEBT SERVICE REQUIREMENTS

The following schedule illustrates the (i) annual debt service on the outstanding general obligation bonds of the City, (ii) estimated annual debt service on the Bonds and (iii) total estimated annual debt service on all general obligation bonds of the City outstanding after issuance of the Bonds.

**TABLE 1**

**Schedule of Estimated Annual Debt Service Requirements *(a)***
**City of Flagstaff**

| | Bonds Outstanding *(b)* | | The Bonds | | Total Estimated Annual |
|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Principal* | Estimated Interest *(c)* | Debt Service Requirements* |
| 2015/16 | $ 5,509,319 | $ 1,575,147 | | | $ 7,084,466 |
| 2016/17 | 4,955,939 | 1,407,439 | $610,000 | $ 699,689 *(d)* | 7,673,067 |
| 2017/18 | 4,992,853 | 1,246,363 | 630,000 | 703,600 | 7,572,816 |
| 2018/19 | 5,105,068 | 1,085,210 | 660,000 | 678,400 | 7,528,678 |
| 2019/20 | 5,077,592 | 914,087 | 675,000 | 652,000 | 7,318,678 |
| 2020/21 | 3,755,432 | 729,371 | 725,000 | 625,000 | 5,834,803 |
| 2021/22 | 3,471,298 | 584,755 | 750,000 | 596,000 | 5,402,054 |
| 2022/23 | 2,908,822 | 446,632 | 775,000 | 566,000 | 4,696,454 |
| 2023/24 | 1,226,423 | 341,043 | 800,000 | 535,000 | 2,902,466 |
| 2024/25 | 1,274,106 | 295,910 | 825,000 | 503,000 | 2,898,016 |
| 2025/26 | 1,316,872 | 248,994 | 875,000 | 470,000 | 2,910,866 |
| 2026/27 | 1,359,724 | 204,368 | 900,000 | 435,000 | 2,899,091 |
| 2027/28 | 1,412,664 | 158,227 | 950,000 | 399,000 | 2,919,891 |
| 2028/29 | 480,695 | 110,271 | 975,000 | 361,000 | 1,926,966 |
| 2029/30 | 498,821 | 91,945 | 1,025,000 | 322,000 | 1,937,766 |
| 2030/31 | 517,043 | 72,923 | 1,050,000 | 281,000 | 1,920,966 |
| 2031/32 | 425,000 | 53,200 | 1,100,000 | 239,000 | 1,817,200 |
| 2032/33 | 445,000 | 36,200 | 1,150,000 | 195,000 | 1,826,200 |
| 2033/34 | 460,000 | 18,400 | 1,200,000 | 149,000 | 1,827,400 |
| 2034/35 | | | 1,250,000 | 101,000 | 1,351,001 |
| 2035/36 | | | 1,275,000 | 51,000 | 1,326,000 |
| | $ 45,192,672 | | $ 18,200,000 | | |

* *Subject to change.*

(a) *Prepared by Stifel, Nicolaus & Company, Incorporated (the "Financial Advisor").*

(b) *Represents all general obligation bonded indebtedness outstanding. Also includes funds borrowed under a separate Loan Agreement with the Water Infrastructure Finance Authority of Arizona - see footnote (a) in TABLE 10A. The table above reflects the debt service requirements on the full amount of such Loan Agreement.*

(c) *Interest on the Bonds is estimated at 4.0%*

(d) *The first interest payment on the Bonds will be due on January 1, 2017. Thereafter, interest payments will be made semiannually on January 1 and July 1 until maturity or prior redemption.*

## LITIGATION

To the knowledge of the City, no litigation or administrative action or proceeding is pending, restraining or enjoining, or seeking to restrain or enjoin, the issuance or delivery of the Bonds or the levy, collection or receipt of ad valorem property taxes to pay the debt service on the Bonds, contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds. An authorized City representative will deliver a certificate to the same effect at the time of the original delivery of the Bonds.

## LEGAL MATTERS

Legal matters incident to the authorization, sale and issuance by the City of the Bonds and with regard to the tax-exempt status thereof will be passed upon by Greenberg Traurig, LLP, Phoenix, Arizona, as Bond Counsel. The form of that opinion is included as APPENDIX B - "FORM OF APPROVING LEGAL OPINION" hereto.

While Bond Counsel has participated in the preparation of portions of this Official Statement, it has not been engaged to confirm or verify, and expresses and will express no opinion as to, the accuracy, completeness or fairness of any statements in this Official Statement, or in any other reports, financial information, offering or disclosure documents or other information pertaining to the City or the Bonds that may be prepared or made available by the City or others to the bidders for or holders of the Bonds or others.

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

From time to time, there are legislative proposals (and interpretations of such proposals by courts of law and other entities and individuals) which, if enacted, could alter or amend the property tax system of the State and numerous matters, both financial and nonfinancial, impacting the operations of municipalities which could have a material impact on the City and could adversely affect the secondary market value or marketability of the Bonds. 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 Bonds) issued prior to enactment.

The legal opinions to be delivered concurrently with the delivery of the Bonds will express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein dated and speaking only as of the date of delivery of the Bonds. 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 rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## TAX MATTERS

### General

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the City must continue to meet with respect to the Bonds after the issuance thereof in order that the interest of the Bonds not be included in gross income for federal income tax purposes. The failure by the City to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The City has covenanted in the Ordinance to take the actions required by the Code in order to maintain the exclusion from federal gross income of interest on the Bonds.

In the opinion of Bond Counsel rendered with respect to the Bonds on the date of issuance of the Bonds, assuming continuing compliance by the City with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, interest on the Bonds will be excludable from gross income for federal income tax purposes. Interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed in individuals and corporations; however, interest on the Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that the interest on the Bonds will be exempt from taxation under the laws of the State of Arizona.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the ownership of, receipt or accrual of interest on or disposition of the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest in indebtedness incurred to continue to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocable to interest on a Bond; (ii) the reduction of the loss reserve deduction for property or casualty insurance companies by fifteen percent (15%) of certain items, including interest on the Bonds; (iii) the inclusion of interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of the branch profits tax; (iv) the inclusion of interest on the Bonds in passive investment income subject to federal income of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year and (v) the inclusion in gross income of interest on the Bonds by recipients of certain Social Security and Railroad Retirement benefits.

From time to time, there are legislative proposals suggested, debated, introduced or pending in Congress that, if enacted into law, could alter or amend one or more of the federal tax matters described above including, without limitation, the excludability from gross income of interest on the Bonds, adversely affect the market price or marketability of the Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would apply to the Bonds. If enacted into law, such legislative proposals could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the impact of any proposed or pending legislation.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of a particular result, and is not binding on the Internal Revenue Service or the courts; rather, such opinion represents Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

**Original Issue Discount and Original Issue Premium**

Certain of the Bonds as indicated on the inside front cover page of this Official Statement ("Discount Bonds"), were 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 redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond 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 Discount Bonds of the same maturity will be sold pursuant to that offering. For federal income tax purposes, Original Issue Discount accrues to the owner of a Discount Bond over the period to maturity 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 Discount Bond (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 other interest on the Bonds, and (ii) will be added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the inside front cover page of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Bonds as indicated on the inside front cover page of this Official Statement ("Premium Bonds"), were offered and will be sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity in the case of the "Noncallable Premium Bonds" or their earlier call date in the case of the "Callable Premium Bonds." The difference between the principal amount payable at maturity of the Noncallable Premium Bonds and the tax basis of a Noncallable Premium Bond to a purchaser and the difference between the amount payable at the call date of the Callable Premium Bonds that minimizes the yield to a purchaser of a Callable Premium Bond and the tax basis to the purchaser (in either case, other than a purchaser who holds a Premium Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) will be "bond premium." For federal income tax purposes, bond premium is amortized over the period to maturity of a Noncallable Premium Bond. A purchaser of a Premium Bond will be required to decrease his or her adjusted basis in the Premium Bond by the amount of amortizable bond premium attributable to each taxable year he or she holds the Premium Bond. The amount of amortizable bond premium attributable to each taxable year will be determined at a constant interest rate compounded actuarially. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond.

Owners of Discount Bonds and Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of Original Issue Discount or bond premium properly accruable or amortizable in any period with respect to the Discount Bonds or the Premium Bonds and as to other federal tax consequences, and the treatment of Original Issue Discount and bond premium for purposes of state and local taxes on, or based on, income.

**Information Reporting and Backup Withholding**

Interest paid on bonds such as the Bonds is subject to information reporting to the Internal Revenue Service. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Bonds, under certain circumstances, to "backup withholding" at the rates set forth in the Code, with respect to payments on the Bonds and proceeds from the sale of Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Bonds. This withholding generally applies if the owner of Bonds (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 Bonds 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.

## RATINGS

Standard and Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's") have assigned the ratings of "__" and "__," respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, New York, New York 10041 and Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price or the marketability of the Bonds.

## UNDERWRITING

RBC Capital Markets, LLC (the "Underwriter") has agreed to purchase the Bonds, subject to certain conditions, at a purchase price of $_________. If the Bonds are sold to produce the yields shown on the inside front cover page hereof, the Underwriter's compensation will be $___________. The Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any of the Bonds are purchased.

## CONTINUING DISCLOSURE

The City will covenant for the benefit of certain owners of the Bonds to provide certain financial information and operating data relating to the City by not later than February 1 in each year commencing February 1, 2017 (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 document or information required to be filed by the City as such will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through the MSRB's Electronic Municipal Market Access System, each as described in APPENDIX C – "FORM OF CONTINUING DISCLOSURE UNDERTAKING." The specific nature of the information to be contained in the Annual Reports and the Notices of Listed Events is also set forth in APPENDIX C – "FORM OF CONTINUING DISCLOSURE UNDERTAKING." These covenants will be made in order to assist the Underwriter in complying with the Securities and Exchange Commission's 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 Bonds in the secondary market. *Pursuant to Arizona Law, the ability of the City to comply with such covenants will be subject to annual appropriation of funds sufficient to provide for the costs of compliance with such covenants.* Should the City not comply with such covenants due to a failure to appropriate for such purpose, the City has covenanted to provide notice of such fact to the MSRB. Absence of continuing disclosure, due to non-appropriation or otherwise, could adversely affect the Bonds and specifically their market price and transferability..

The City previously entered into continuing disclosure undertakings (the "Prior Undertakings") in connection with the issuance of certain bonds, which require 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"). Until March 22, 2016, the Prior Annual Report with respect to the fiscal year ended June 30, 2015 was not associated with the nine-digit CUSIP numbers for the City's Refunding Certificates of Participation, Series 12 relating to the Arizona Municipal Financing Program and until Jan. 14, 2014, the 2012 Annual Report with respect to the fiscal year ended June 30, 2012, was not associated with the nine-digit CUSIP numbers for the City's Pledged Revenue Refunding Obligations, Series 2012. Certain information required by the Prior Undertakings was filed but not presented in the same format as within official statements for fiscal years ending June 30, 2011 through June 30, 2015. The City did not file notices of the failure to provide the Prior Annual Report. The correctly formatted data was filed on EMMA on January 14, 2014, March 22, 2016 and May __, 2016. The City has implemented procedures to facilitate compliance with the Prior Undertakings, the continuing disclosure undertaking related to the Bonds and future similar undertakings in all material respects.

## FINANCIAL ADVISOR

The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the execution and delivery of the Bonds. The Financial Advisor participated in the preparation of the Official Statement but has not verified, and does not assume any responsibility for, the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement: "The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City, but the Financial Advisor does not guarantee the accuracy or completeness of such information."

## FINANCIAL STATEMENTS

The financial statements of the City as of June 30, 2015 and for its fiscal year then ended, which are included as APPENDIX D of this Official Statement, have been audited by Eide Bailly, LLP, as stated in its opinion which appears in APPENDIX D – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015." The City neither requested nor obtained the consent of Eide Bailly, LLP to include its report and Eide Bailly, LLP has performed no procedures subsequent to rendering its opinion on the financial statements.

## ADDITIONAL INFORMATION

Additional information and copies of the Official Statement and the Ordinance authorizing execution and delivery of the Bonds may be obtained by contacting the Financial Advisor, Stifel, Nicolaus & Company, Incorporated, 2325 East Camelback Road, Suite 750, Phoenix, Arizona 85016, or by contacting Rick Tadder, Management Services Director, 211 W. Aspen Avenue, Flagstaff, Arizona 86001.

## CONCLUDING STATEMENT

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 opinions or estimates have been or will be realized. Information in this Official Statement has been derived by the City from official and other sources and is believed by the City to be accurate and reliable. Information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed. Neither this Official Statement nor any statement that may have been or that may be made orally or in writing is to be construed as part of a contract with the original purchasers or subsequent owners of the Bonds.

CITY OF FLAGSTAFF, ARIZONA

By:_________________________________

Management Services Director

**APPENDIX A**

# CITY OF FLAGSTAFF, ARIZONA
# GENERAL AND FINANCIAL INFORMATION

## General

The City is northern Arizona's principal population, commerce and education center. Flagstaff is situated in a mountainous region at an elevation of 7,000 feet. At the base of the San Francisco Peaks, including Mount Humphreys (the highest point in the State with an elevation of 12,670 feet), Flagstaff is known for its proximity to such Arizona attractions as the Grand Canyon, Wupatki National Monument, Sunset Crater, Walnut Canyon, Oak Creek Canyon and Meteor Crater.

Flagstaff was originally founded in the late 1800's as a work camp for construction crews working on the transcontinental railroad. It was incorporated as a town in 1894 and as a city in 1928. It has served as the county seat for Coconino County, Arizona (the "County"), since 1891.

Listed below are U.S. Census population figures for the City, the County and the State.

**POPULATION STATISTICS**

| | City of Flagstaff | Coconino County | State of Arizona |
|---|---|---|---|
| 2015 Estimated *(a)* | 70,463 | 141,602 | 6,758,251 |
| 2010 Census | 65,870 | 134,421 | 6,392,017 |
| 2000 Census | 52,894 | 116,320 | 5,130,632 |
| 1990 Census | 45,857 | 96,591 | 3,665,228 |
| 1980 Census | 34,743 | 75,008 | 2,716,633 |
| 1970 Census | 26,117 | 48,326 | 1,775,399 |

*(a)* *Population estimates as of July 1, 2015 (released December 2015) provided by the Office of Employment and Population Statistics, Arizona Department of Administration.*

Source: U.S. Census Bureau and the Arizona Department of Economic Security, Research Administration Population Statistical Unit.

## Municipal Government

Flagstaff operates under a Council-Manager form of government as provided by its Charter, which was originally adopted on October 3, 1958. The City Council is comprised of a Mayor and six Council members. The Council members are elected on a non-partisan ballot for four-year staggered terms while the Mayor is elected at large for a two-year term. The Mayor and Council members have equal voting power. The Council is responsible for policy-making, as well as making appointments to advisory boards, commissions and committees. It also appoints Municipal Court Judges and the City Attorney. Additionally, the City Council hires the City Manager who has full responsibility for carrying out Council policies and administering City operations. The City Manager in turn appoints City employees and department heads under civil service procedures as specified in the Charter.

## Economy

The economy of Flagstaff is based primarily on government, small and medium-sized manufacturing, the service industry, trade and tourism. As the home of Northern Arizona University ("NAU"), Flagstaff is a center of educational, governmental and scientific employment and is becoming a center for research and development as well as the distribution and manufacturing of high technology products. The location of Flagstaff at the junction of Interstates 40 and 17, plus the close proximity of seven national parks and monuments, makes tourism a major source of employment and a strong contributor to the revenue base of Flagstaff. In addition, Flagstaff serves as the major trade and service center for a wide area of northern Arizona.

The table below sets forth the unemployment rate averages for the City, the County, the State and the United States for the years indicated.

**UNEMPLOYMENT RATE AVERAGES**

| Year | United States | State of Arizona | Coconino County | City of Flagstaff |
|---|---|---|---|---|
| 2016 *(a)* | 4.9% | 5.5% | 6.3% | 4.0% |
| 2015 | 5.3 | 6.1 | 6.6 | 4.5 |
| 2014 | 6.2 | 6.4 | 7.1 | 5.1 |
| 2013 | 7.4 | 7.9 | 8.1 | 5.8 |
| 2012 | 8.1 | 8.3 | 8.6 | 6.1 |
| 2011 | 8.9 | 9.4 | 9.5 | 7.0 |

*(a) As of February 2016.*

Source: Arizona Department of Administration, Employment and Population Statistics, CES/LAUS Unit; U.S. Department of Labor, Bureau of Labor Statistics.

Total wage and salary employment for the City is unavailable. However, the table below shows a comparison of the changes in annual average employment levels in the various non-agriculture sectors of the County for calendar years 2011 into 2016.

**LABOR FORCE AND NONFARM EMPLOYMENT**
**Coconino County, Arizona**

| | 2016 *(a)* | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Mining and construction | 2,100 | 2,200 | 2,100 | 2,100 | 2,100 | 2,000 |
| Manufacturing | 4,400 | 4,400 | 4,300 | 4,300 | 4,100 | 3,900 |
| Trade, transportation and utilities | 9,900 | 10,100 | 10,000 | 9,800 | 9,600 | 9,500 |
| Information | 500 | 500 | 400 | 400 | 400 | 400 |
| Financial activities | 1,300 | 1,300 | 1,200 | 1,200 | 1,300 | 1,300 |
| Professional and business services | 3,367 | 3,300 | 3,000 | 2,800 | 2,700 | 2,600 |
| Educational and health services | 9,600 | 9,400 | 9,200 | 8,900 | 8,500 | 8,400 |
| Leisure and hospitality | 12,067 | 13,200 | 13,100 | 12,800 | 12,400 | 12,200 |
| Other services | 1,367 | 1,400 | 1,500 | 1,500 | 1,600 | 1,700 |
| Government | 20,300 | 20,000 | 19,700 | 19,600 | 19,600 | 19,600 |
| Total | 64,900 | 65,800 | 64,500 | 63,400 | 62,300 | 61,600 |

*(a) Data through March 2016.*

Source: Arizona Department of Economic Security, Research Administration.

The table below sets forth the major employers in the City.

**MAJOR EMPLOYERS**
**City of Flagstaff, Arizona**

| Employer | Product/Service | Approximate Employment |
|---|---|---|
| Northern Arizona University | Education | 2,815 |
| Flagstaff Medical Center | Healthcare | 2,300 |
| W.L. Gore & Associates | Medical Equipment Manufacturing | 2,200 |
| Flagstaff Unified School District | Government | 1,436 |
| Coconino County | Government | 1,294 |
| City of Flagstaff | Government | 872 |
| Wal-Mart | Retail | 630 |
| Grand Canyon Railways | Lodging and Travel | 600 |
| SCA Tissue | Paper Products Manufacturing | 279 |
| Dell Systems | Information Technology | 250 |
| Nestle Purina | Distribution Center | 240 |

Source: City of Flagstaff, 2015 Comprehensive Annual Financial Report and Hoover's, a D&B Company.

### Manufacturing

The access to interstate highways and close proximity to Southern California markets has made Flagstaff the manufacturing and distribution center for northern Arizona. Flagstaff is the hub of W.L. Gore & Associates medical products division concentrating in the development and manufacturing of implantable medical devices and has been in Flagstaff for over 3 decades. Other bio-science manufacturers located in the City include Machine Solutions, a supplier of catheter and stent manufacturers and TGEN North, a pathogen genomics and bio defense research facility which opened in 2007.

The Northern Arizona Center for Entrepreneurship and Technology ("NACET") is a small-business assistance program founded to help entrepreneurs and startups succeed in northern Arizona. The program offers hands-on consulting to high-tech, science, and renewable energy firms. NACET is part of the Flagstaff's Science & Innovation Park, a collaboration with the U.S. Geological Survey ("USGS"). The U.S. Geological Survey Branch of Astrogeology was established in Flagstaff due to the surrounding number of natural geological landmarks that resembled the surface of the moon. Field training for the astronauts took place at Sunset Crater Volcano National Monument, Meteor Crater, Grand Canyon National Park and other areas in the region. The USGS Branch of Astrogeology continues to be a part of NASA's exploration of space. Staff provides outreach to other science organizations, schools, and to the general public. Scientists provide brown bag lectures on campus and other locations in Flagstaff. The public can take self-guided tours of the facilities and science displays.

### Government

Government comprises the largest component of the County's, as well as Flagstaff's, labor force. A number of departments of the federal government maintain offices in Flagstaff, including Agriculture, Commerce, Health, Education and Welfare, Interior, Justice, and Transportation. In particular, the City owns the land and many of the buildings on the USGS campus located in Flagstaff. The City, the Government Services Administration, and the USGS, in cooperation with outside consultants, have developed a new master plan that calls for the eventual demolition of much of the existing campus. It will be replaced by a new USGS facility and is interconnected with the private science-and-technology park. The goal of this project is to facilitate technology transfer between USGS and the private sector. The park will include up to 200,000 square feet of research and manufacturing space. In addition, the United States Forest Service and the National Park Service operate numerous offices in the area.

**Commerce**

As the principal trade and service center for a large area of northern Arizona, wholesale and retail trade play a large role in the economy of Flagstaff. Both tourists and residents traveling and living within north-central Arizona have access to ten shopping centers in Flagstaff. The table below sets forth retail sales data for the years indicated.

**RETAIL SALES DATA**
**City of Flagstaff, Arizona**

| **Fiscal Year** | **Sales Tax Receipts** | **State-Shared Sales Tax Receipts** |
|---|---|---|
| 2016 *(a)* | $ [to be updated] | $ [to be updated] |
| 2015 | 17,457,210 | 6,019,776 |
| 2014 | 15,897,892 | 5,733,507 |
| 2013 | 15,284,658 | 5,391,580 |
| 2012 | 14,283,540 | 5,147,101 |
| 2011 | 13,575,385 | 4,711,821 |

*(a)* *Data through ______, 2016*

Source: City of Flagstaff Comprehensive Annual Financial Reports and Arizona Department of Revenue.

After the economic recession, net taxable retail sales in the County increased 5.38% in 2015, after a 3.90% increase in 2014 and a 2.17% increase in 2012 and a total increase of 25.48% since 2011. Net taxable retail sales for the County for the past six fiscal years are set forth below:

**TAXABLE RETAIL SALES**
**Coconino County**
**Net Taxable Retail Sales *(a)***

| **Calendar Year** | **Amount** |
|---|---|
| 2016 *(b)* | $ 190,662,784 |
| 2015 | 1,219,927,577 |
| 2014 | 1,087,574,596 |
| 2013 | 1,032,088,898 |
| 2012 | 993,362,699 |
| 2011 | 972,230,016 |

*(b)* *Excludes taxes on food and gasoline.*

*(c)* *As of February 2016.*

Source: Arizona Department of Revenue.

**Banking Institutions**

The following table sets forth bank deposits in the County.

**BANK DEPOSITS**
**Coconino County**
**(in millions)**

| Fiscal Year | Amount |
|---|---|
| 2015 | $1,623 |
| 2014 | 1,355 |
| 2013 | 1,361 |
| 2012 | 1,190 |
| 2011 | 1,125 |

Source: Federal Deposit Insurance Corporation, Summary of Deposits.

**Tourism**

Flagstaff is located near such tourist attractions as the Grand Canyon, the Glen Canyon Dam and Lake Powell, Sunset Crater, Walnut Canyon, and the scenic recreational attraction of Oak Creek Canyon. Located near Flagstaff are various United States Forest Service park areas for camping, stream and lake fishing, swimming, water skiing and hunting. Snow-skiing is available in the winter at the Arizona Snowbowl, a few miles north of Flagstaff. Annual summer festivities in Flagstaff include an art, music, and theater festival. The J. Lawrence Walkup Skydome at NAU, with a seating capacity of 16,000, can be adapted to a variety of events including football, basketball, ice hockey, badminton, volleyball, track, intramurals, and cultural and entertainment events.

The following table sets forth the number of visitors to selected national parks and monuments which are located near Flagstaff.

**TOURISM STATISTICS BY NUMBER OF VISITORS**

| Calendar Year | Grand Canyon National Park | Montezuma Castle National Monument | Sunset Crater National Monument | Walnut Canyon National Monument | Wupatki National Monument |
|---|---|---|---|---|---|
| 2015 | 5,520,736 | 416,635 | 182,203 | 153,322 | 212,828 |
| 2014 | 4,756,771 | 407,017 | 176,723 | 135,230 | 195,962 |
| 2013 | 4,564,840 | 389,091 | 184,684 | 125,267 | 190,878 |
| 2012 | 4,421,352 | 455,305 | 177,793 | 110,748 | 201,365 |
| 2011 | 4,298,178 | 573,731 | 185,265 | 125,003 | 216,165 |

Source: National Park Service Public Use Statistics Office.

**Education**

Flagstaff is served by twelve public elementary schools, two middle schools, two high schools and several private and charter schools.

NAU is the leading employer in the City, with approximately 2,814 full-time faculty and staff. NAU is a fully-accredited, four-year degree-granting institution of higher learning. NAU's fall semester total headcount was estimated at 29,031 students (including full-time and part-time undergraduate and graduate students). NAU's main campus is located on a 730-acre site in the City.

Coconino County Community College District (the "College"), founded in 1991, is a multi-campus college serving residents of the County with classes offered in the City, Williams, Grand Canyon, Fredonia, Page/Lake Powell and Tuba City. The College provides students with a variety of courses as well as Associate Degree and Certification programs. The college serves more than 7,500 students per year with two campuses in the City. The Flagstaff Lone Tree Campus houses the College's administrative offices, as well as the majority of the general education courses. The Flagstaff Medical Center Institute for Nursing Education as well as other vocational programs like fire science and construction management.

**Transportation**

Flagstaff is served by main lines of the Burlington Northern, Santa Fe and Amtrak Railroads, one transcontinental busline (Greyhound/Trailways), and seven interstate and four intrastate truck lines. Interstate Highways 17 and 40, as well as State Highways 89, 89A and 180, intersect within Flagstaff. Interstate 17 provides a direct route to Phoenix and other points in southern Arizona, while Interstate 40 is a transcontinental east-west route. State Highway 89 provides access to Northern Arizona's mountain recreation areas, including Lake Powell. State Highway 89A follows the Oak Creek Canyon to Sedona while State Highway 180 is the most direct route to the Grand Canyon.

Pulliam Airport, located four miles south of Flagstaff, is served by American Airlines and provides numerous daily flights to Phoenix, where connections can be made to international and national destinations.

# PROPERTY TAXES

As described under the heading "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS," for the purpose of paying the principal of and interest on the Bonds and costs of administration of the Bonds, the City will be required by law to cause to be levied on all the taxable property in the City a continuing, direct, annual, ad valorem property tax sufficient to pay all principal, interest, and costs of administration for the Bonds as the same become due, without limitation as to rate or amount.

Taxes levied for the maintenance and operation of counties, cities, towns, school districts, community college districts and the State are "primary taxes." Taxes levied for payment of bonds like the Bonds, voter-approved budget overrides and the maintenance and operation of special service districts such as sanitary, fire, road improvement and joint technological education districts are "secondary taxes." See "Primary Taxes" and "Secondary Taxes" below. The discussion below provides an overview of property taxation and the features related to property taxes as the payment source for the Bonds.

**Taxable Property**

Real property and improvements and personal property are either valued by the Assessor of the County or the Arizona Department of Revenue. Property valued by the Assessor of the County is referred to as "locally assessed" property and generally encompasses residential, agricultural and traditional commercial and industrial property. Property valued by the Department of Revenue is referred to as "centrally valued" property and generally includes large mine, utility and railroad entities.

Locally assessed property is assigned two values: "full cash value" and "limited property value." Centrally valued property is assigned one value: full cash value.

**Full Cash Value**

Full cash value ("Full Cash Value") is statutorily defined to mean "that value determined as prescribed by statute" or if no statutory method is prescribed it is "synonymous with market value which means that estimate of value that is derived annually by using standard appraisal methods and techniques," which generally include the market approach, the cost approach and the income approach. In valuing locally assessed property, the Assessor of the County generally uses a cost approach to value commercial/industrial property and a market approach to value residential property. In valuing centrally valued property, the Department of Revenue begins generally with information provided by taxpayers and then applies procedures provided by State law. State law allows taxpayers to appeal such Full Cash Values by providing evidence of a lower value, which may be based upon another valuation approach.

For centrally valued property and personal property (except mobile homes), Full Cash Value is used as the basis for levying taxes (both primary and secondary). Full Cash Value is also used as the ceiling for determining Limited Property Value (as defined below) and as the basis for determining constitutional and statutory debt limits for certain political subdivisions in Arizona. Unlike Limited Property Value, increases in Full Cash Value are not limited.

**Limited Property Value**

Limited property value ("Limited Property Value") is a property value determined pursuant to the Arizona Constitution and the Arizona Revised Statutes. For locally assessed property in existence in the prior year that did not undergo modification through construction, destruction, split or change in use, including that for mobile homes, Limited Property Value is limited to the lesser of Full Cash Value or an amount 5% greater than Limited Property Value determined for the prior year.

For locally assessed property, Limited Property Value is used as the basis for levying taxes (both primary and secondary). Limited Property Value is also used as the basis for determining constitutional and statutory debt limits for certain political subdivisions in Arizona. Unlike Full Cash Value, increases in Limited Property Value are limited as described in the prior paragraph and under the heading "Primary Taxes" below.

Prior to tax year 2015, the value of locally assessed property used for primary tax purposes was Limited Property Value. The value of such property used for secondary tax purposes was Full Cash Value. Limited Property Value for property in existence in the prior year that did not undergo modification through construction, destruction, split or change in use increased by the greater of either 10% of the prior year's Limited Property Value or 25% of the difference between the prior year's Limited Property Value and the current year's Full Cash Value.

**Property Classification and Assessment Ratios**

All property, both real and personal, is assigned a classification (defined by property use) and related assessment ratio that is multiplied by the Limited Property Value or Full Cash Value of the property, as applicable, to obtain the "Limited Assessed Property Value" and the "Full Cash Assessed Value," respectively. Such values are then multiplied by the relevant taxing jurisdiction's primary and secondary tax rates to determine each property owner's property tax liability.

The assessment ratios for each property classification are set forth by tax year in the following table.

**TABLE 2**

**Property Tax Assessment Ratios (Tax Year)**

| Property Classification *(a)* | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Mining, utilities, commercial and industrial | 20% | 19.5% | 19% | 18.5% | 18% |
| Agriculture and vacant land | 16 | 16 | 16 | 16 | 15 |
| Owner occupied residential | 10 | 10 | 10 | 10 | 10 |
| Leased or rented residential | 10 | 10 | 10 | 10 | 10 |
| Railroad, private car company and airline flight property *(b)* | 15 | 15 | 16 | 15 | 14 |

*(a)* *Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation.*

*(b)* *This percentage is determined annually pursuant to Section 42-15005, Arizona Revised Statutes.*

Source: *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue (the "Property Tax Abstract"). Note that Net Assessed Property Value for Secondary Tax Purposes (as defined herein) is described as "Net Assessed Value" in the Property Tax Abstract.

**Primary Taxes**

Primary taxes are levied against "Net Limited Assessed Property Value" of locally assessed property and against "Net Full Cash Assessed Value" of centrally valued property. Net Limited Assessed Property Value and Net Full Cash Assessed Value are determined by excluding the value of property exempt from taxation from Limited Assessed Property Value and Full Cash Assessed Value, respectively.

The primary taxes levied by each county, city, town and community college district are constitutionally limited to a maximum increase of 2% over the maximum allowable prior year's levy limit plus any taxes on property not subject to taxation in the preceding year (e.g., new construction and property brought into the jurisdiction because of annexation). The 2% limitation does not apply to primary taxes levied on behalf of school districts.

Primary taxes on residential property only are constitutionally limited to 1% of the Limited Property Value of such property. This constitutional limitation on residential primary tax levies is implemented by reducing the school district's taxes. To offset the effects of reduced school district property taxes, the State compensates the school district by providing additional State aid (or in some counties, county taxpayers are also required to make payments to offset the effects of reduced property taxes).

**Secondary Taxes**

Secondary taxes are levied against Net Limited Assessed Property Value of locally assessed property and against Net Full Cash Assessed Value of centrally valued property (together, "Net Assessed Property Value for Secondary Tax Purposes"). (Prior to tax year 2015, secondary taxes were levied against Net Full Cash Assessed Value of both locally assessed property and centrally valued property.) There is no constitutional or statutory limitation on annual levies for voter-approved bond indebtedness and overrides and certain special district assessments. **As Net Full Cash Assessed Value was used as the basis for levying taxes on locally assessed property and centrally valued property for payment of bonds like the Bonds in fiscal years prior to fiscal year 2015/16, this Official Statement compares Net Assessed Property Value for Secondary Tax Purposes with Net Full Cash Assessed Value in applicable years under the heading "ASSESSED VALUES AND TAX RATES" herein.**

**Tax Procedures**

The State tax year has been defined as the calendar year, notwithstanding the fact that tax procedures begin prior to January 1 of the tax year and continue through May of the succeeding calendar year.

On or before the third Monday in August each year the Board of Supervisors of the County prepares the tax roll setting forth certain valuations by taxing district of all property in the County subject to taxation. The Assessor of the County is required to complete the assessment roll by December 15th of the year prior to the levy. This tax roll also shows the valuation and classification of each parcel of land located within the County for the tax year. The tax roll is then forwarded to the Treasurer of the County.

With the various budgetary procedures having been completed by the governmental entities, the appropriate tax rate for each jurisdiction is then applied to the parcel of property in order to determine the total tax owed by each property owner. Any subsequent decrease in the value of the tax roll as it existed on the date of the tax levy due to appeals or other reasons would reduce the amount of taxes received by each jurisdiction.

The property tax lien on real property attaches on January 1 of the year the tax is levied. Such lien is prior and superior to all other liens and encumbrances on the property subject to such tax except liens or encumbrances held by the State or liens for taxes accruing in any other years not superior to federal tax liens. Set forth below is a record of property taxes levied and collected in the City for a portion of the current fiscal year and all of the previous five fiscal years.

**TABLE 3**

**Real and Secured Property Taxes Levied and Collected *(a)***
**City of Flagstaff, Arizona**

| | | | Collected to June 30th of Initial Fiscal Year | | Adjusted | Cumulative Collections to March 31, 2016 | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | District Tax Rate | Adjusted District Tax Levy | Amount | % of Adj. Levy as of | City Tax Levy as of 3/31/2016 | Amount | % of Adj. Levy as of |
| 2015/16 | $1.6600 | $11,355,520 | *(b)* | *(b)* | $11,342,922 | $7,295,128 | 64.31% |
| 2014/15 | 1.6784 | 11,160,355 | 11,002,751 | 98.59 % | 11,149,645 | 11,145,118 | 99.96 |
| 2013/14 | 1.6795 | 11,040,667 | 10,861,865 | 98.38 | 11,034,376 | 11,008,563 | 99.77 |
| 2012/13 | 1.5497 | 11,815,041 | 11,553,454 | 97.79 | 11,808,820 | 11,804,041 | 99.96 |
| 2011/12 | 1.5283 | 11,989,596 | 11,635,287 | 97.04 | 11,972,822 | 11,941,480 | 99.74 |
| 2010/11 | 1.4845 | 12,497,535 | 12,290,379 | 98.34 | 12,474,498 | 12,592,725 | 100.95 |

*(a)* *Taxes are collected by the Treasurer of the County. Taxes in support of debt service are levied by the Board of Supervisors of the County as required by Arizona Revised Statutes. Delinquent taxes are subject to an interest and penalty charge of 16% per annum, which is prorated at a monthly rate of 1.33%. Interest and penalty*

*collections for delinquent taxes are not included in the collection figures above, but are deposited in the County's General Fund. Interest and penalties with respect to the first half tax collections (delinquent November 1) are waived if the full year's taxes are paid by December 31.*

(b) *2015/16 taxes in course of collection:*
*First installment due 10-01-15, delinquent 11-01-15;*
*Second installment due 03-01-16, delinquent 05-01-16.*

Source: Office of the Treasurer of the County.

**Delinquent Tax Procedures**

The property taxes due the City are billed, along with State and other taxes, each September and are due and payable in two installments on October 1 and March 1 and become delinquent on November 1 and May 1, respectively. Delinquent taxes are subject to an interest penalty of 16% per annum prorated monthly as of the first day of the month. (Delinquent interest is waived if a taxpayer, delinquent as to the November 1 payment, pays the entire year's tax bill by December 31.) After the close of the tax collection period, the Treasurer of the County prepares a delinquent property tax list and the property so listed is subject to a tax lien sale in February of the succeeding year. In the event that there is no purchaser for the tax lien at the sale, the tax lien is assigned to the State, and the property is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent taxes and interest thereon.

After three years from the sale of the tax lien, the tax lien certificate holder may bring an action in a court of competent jurisdiction to foreclose the right of redemption and, if the delinquent taxes plus accrued interest are not paid by the owner of record or any entity having a right to redeem, a judgment is entered ordering the Treasurer of the County to deliver a treasurer's deed to the certificate holder as prescribed by law.

In the event of bankruptcy of a taxpayer pursuant to the United States Bankruptcy Code (the "Bankruptcy Code"), the law is currently unsettled as to whether a lien can attach against the taxpayer's property for property taxes levied during the pendency of bankruptcy. Such taxes might constitute an unsecured and possibly non-interest bearing administrative expense payable only to the extent that the secured creditors of a taxpayer are oversecured, and then possibly only on the prorated basis with other allowed administrative claims. It cannot be determined, therefore, what adverse impact bankruptcy might have on the ability to collect ad valorem taxes on property of a taxpayer within the City. Proceeds to pay such taxes come only from the taxpayer or from a sale of the tax lien on delinquent property.

When a debtor files or is forced into bankruptcy, any act to obtain possession of the debtor's estate, any act to create or perfect any lien against the property of the debtor or any act to collect, assess or recover a claim against the debtor that arose before the commencement of the bankruptcy is stayed pursuant to the Bankruptcy Code. While the automatic stay of a bankruptcy court may not prevent the sale of tax liens against the real property of a bankrupt taxpayer, the judicial or administrative foreclosure of a tax lien against the real property of a debtor would be subject to the stay of bankruptcy court. It is reasonable to conclude that "tax sale investors" may be reluctant to purchase tax liens under such circumstances, and, therefore, the timeliness of the payment of post-bankruptcy petition tax collections becomes uncertain.

It cannot be determined what impact any deterioration of the financial conditions of any taxpayer, whether or not protection under the Bankruptcy Code is sought, may have on payment of or the secondary market for the Bonds. None of the City, the Underwriter, the Financial Advisor or their respective agents or consultants has undertaken any independent investigation of the operations and financial condition of any taxpayer, nor have they assumed responsibility for the same.

In the event the County is expressly enjoined or prohibited by law from collecting taxes due from any taxpayer, such as may result from the bankruptcy of a taxpayer, any resulting deficiency could be collected in subsequent tax years by adjusting the City's tax rate charged to non-bankrupt taxpayers during such subsequent tax years.

## ASSESSED VALUES AND TAX RATES

### TABLE 4

**Direct and Overlapping Net Assessed Property Values for Secondary Tax Purposes and Tax Rates Per $100 Net Assessed Property Value for Secondary Tax Purposes**

| Overlapping Jurisdiction | 2015/16 Net Assessed Property Value for Secondary Tax Purposes | 2015/16 Total Tax Rate Per $100 Net Assessed Property Value for Secondary Tax Purposes |
|---|---|---|
| State of Arizona | $54,838,548,829 | $0.0000 |
| Coconino County | 1,537,418,218 | 1.0789*(a)* |
| Coconino County Community College District | 1,537,418,218 | 0.6105 |
| Coconino County Public Health Services | 1,537,418,218 | 0.2500 |
| Coconino County Library District | 1,537,418,218 | 0.2556 |
| Coconino County Fire District Assistance Fund | 1,537,418,218 | 0.1000 |
| Flagstaff Unified School District No. 1 | 1,052,355,072 | 5.4555 |
| Coconino County Joint Vocational Education District | 1,321,296,775 | 0.0500 |
| City of Flagstaff | 683,396,020 | 1.6600 |

*(a)* *Includes the "State Equalization Assistance Property Tax" which is levied by the County and has been set at $0.5054 per $100 Net Assessed Property Value for Secondary Tax Purposes for fiscal year 2015/16. Such amount is adjusted annually pursuant to Section 41-1276, Arizona Revised Statutes.*

Source: *Property Tax Rates and Assessed Values,* Arizona Tax Research Association and Finance Department of the County.

**Total Tax Rates Per $100 Net Assessed Property Value for Secondary Tax Purposes**

The total overlapping property tax rate for property owners within the City is $9.4605 per $100 Net Assessed Property Value for Secondary Tax Purposes, depending upon the specific taxing jurisdictions which overlap the property.

Source: *Property Tax Rates and Assessed Values,* Arizona Tax Research Association, the Finance Department of the County and the Arizona Department of Revenue.

**TABLE 5A**

**Net Assessed Limited Property Value for Secondary Tax Purposes by Property Classification *(a)***
**City of Flagstaff, Arizona**

| Class | 2015/16 |
|---|---|
| Commercial, Industrial, Utilities & Mines | $ 235,918,573 |
| Agricultural and Vacant | 37,290,964 |
| Residential (owner occupied) | 232,360,891 |
| Residential (rental) | 173,470,068 |
| Railroad | 2,389,985 |
| Historical Property | 1,183,676 |
| Commercial Historical Property | 768,784 |
| Certain Government Property Improvements | 13,079 |
| Totals *(b)* | $ 683,396,020 |

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(a) *Determined by Net Assessed Property Value for Secondary Tax Purposes. See "PROPERTY TAXES – Limited Property Value" and – "Secondary Taxes" herein for a discussion of the use of Net Assessed Property Value for Secondary Tax Purposes for fiscal years 2015/16 and thereafter.*

(b) *Totals may not add up due to rounding.*

Source: *The Property Tax Abstract*, Arizona Department of Revenue and *Property Tax Rates and Assessed Values*, Arizona Tax Research Association. Note that Net Assessed Property Value for Secondary Tax Purposes is described as "Net Assessed Value" in the Property Tax Abstract.

**TABLE 5B**

**Net Full Cash Assessed Value by Property Classification *(a)***
**City of Flagstaff, Arizona**

| Class | 2014/15 | 2013/14 | 2012/13 | 2011/12 |
|---|---|---|---|---|
| Commercial, Industrial, Utilities & Mines | $237,037,918 | $240,050,743 | $274,306,202 | $281,417,333 |
| Agricultural and Vacant | 39,681,170 | 45,092,343 | 50,822,785 | 58,152,988 |
| Residential (owner occupied) | 221,560,298 | 215,060,612 | 343,986,758 | 354,853,332 |
| Residential (rental) | 167,567,602 | 156,262,979 | 91,106,048 | 91,438,444 |
| Railroad | 2,583,360 | 2,394,285 | 2,362,513 | 1,618,472 |
| Historical Property | 1,230,079 | 1,217,329 | 1,288,888 | 2,453,187 |
| Commercial Historical Property | 1,024,077 | 967,854 | 1,385,811 | 1,438,182 |
| Certain Government Property Improvements | 11,776 | 16,845 | 17,645 | - |
| Totals *(b)* | $670,696,280 | $661,062,990 | $765,276,651 | $791,371,939 |

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(a) *Determined by Net Full Cash Assessed Value. See "PROPERTY TAXES – Limited Property Value" and – "Secondary Taxes" herein for a discussion of the use of Net Full Cash Assessed Value for fiscal years prior to 2015/16.*

(b) *Totals may not add up due to rounding.*

Source: *The Property Tax Abstract*, Arizona Department of Revenue and *Property Tax Rates and Assessed Values*, Arizona Tax Research Association.

**TABLE 6A**

**Net Assessed Property Value for Secondary Tax Purposes of Major Taxpayers**
**City of Flagstaff, Arizona**

| Major Taxpayer *(a)* | 2015/16 Net Assessed Property Value for Secondary Tax Purposes | As % of Net Assessed Property Value for Secondary Tax Purposes |
|---|---|---|
| Arizona Public Service | $ 18,056,955 | 2.64 % |
| W. L. Gore & Associates, Inc. | 13,856,962 | 2.03 |
| Nestle Purina Petcare Company | 4,001,669 | 0.59 |
| Wal-Mart Stores Inc | 3,467,133 | 0.51 |
| Qwest Corporation (b) | 3,409,362 | 0.50 |
| Little America Hotels & Resorts | 3,338,504 | 0.49 |
| Flagstaff Mall SPE LLC | 2,986,867 | 0.44 |
| Unisource Energy Corporation | 2,583,775 | 0.38 |
| BNSF Railway Company | 2,394,644 | 0.35 |
| Ridge at Clear Creek LLC | 2,326,331 | 0.34 |
| | $ 56,422,202 | 8.26 % |

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(a) *Some of such taxpayers or their parent corporations are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information (collectively, the "Filings") may be inspected, copied and obtained at prescribed rates at the Commission's public reference facilities at 100 F Street, N.E., Washington, D.C. 20549-2736. In addition, the Filings may also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. The Filings may also be obtained through the Internet on the Commission's EDGAR data base at http://www.sec.gov. No representative of the City, the Underwriter, the Financial Advisor, Bond Counsel or counsel to the Underwriter has examined the information set forth in the Filings for accuracy or completeness, nor does any such representative assume responsibility for the same.*

(b) *Taxpayer also known as Century Link.*

Source: The Assessor of the County.

**TABLE 6B**

**Net Full Cash Assessed Value of Major Taxpayers**
**City of Flagstaff, Arizona**

| Major Taxpayer *(a)* | 2014/15 Net Full Cash Assessed Value | As % of 2014/15 Net Full Cash Assessed Value |
|---|---|---|
| Arizona Public Service | $ 16,979,201 | 2.53 % |
| W. L. Gore & Associates, Inc. | 13,547,923 | 2.02 |
| Nestle Purina Petcare Company | 4,569,652 | 0.68 |
| Wal-Mart Stores Inc | 3,569,153 | 0.53 |
| Qwest Corporation *(b)* | 3,479,770 | 0.52 |
| Flagstaff Mall SPE LLC | 2,959,068 | 0.44 |
| BNSF Railway Company | 2,583,345 | 0.39 |
| Unisource Energy Corporation | 2,433,440 | 0.36 |
| Ridge at Clear Creek LLC | 2,215,553 | 0.33 |
| Elevation Flagstaff AZ LLC | 2,138,379 | 0.32 |
| | $ 54,475,484 | 8.12 % |

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*(a)* *Some of such taxpayers or their parent corporations are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports, proxy statements and other information with the Commission. Such Filings may be inspected, copied and obtained at prescribed rates at the Commission's public reference facilities at 100 F Street, N.E., Washington, D.C. 20549-2736. In addition, the Filings may also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. The Filings may also be obtained through the Internet on the Commission's EDGAR data base at http://www.sec.gov. No representative of the City, the Underwriter, the Financial Advisor, Bond Counsel or counsel to the Underwriter has examined the information set forth in the Filings for accuracy or completeness, nor does any such representative assume responsibility for the same.*

*(b)* *Taxpayer also known as Century Link.*

Source: The Assessor of the County.

**TABLE 7A**

**Comparative Net Assessed Property Values for Secondary Tax Purposes *(a)***
**City of Flagstaff, Arizona**

| Fiscal Year | City of Flagstaff | Coconino County | State of Arizona |
|---|---|---|---|
| 2016/17 *(b)* | $ 702,767,941 | $1,569,812,808 | $ 56,573,588,295 |
| 2015/16 | 683,396,020 | 1,537,418,218 | 54,838,548,829 |

*(a) Determined by Net Assessed Property Value for Secondary Tax Purposes. See "PROPERTY TAXES – Limited Property Value" and – "Secondary Taxes" herein for a discussion of the use of Net Assessed Property Value for Secondary Tax Purposes for fiscal years 2015/16 and thereafter.*

*(b) The values are subject to positive or negative adjustments until approved by the Board of Supervisors of the County on or before August 15, 2016.*

Source: *Property Tax Rates Assessed Values*, Arizona Tax Research Association and *the Property Tax Abstract,* Arizona Department of Revenue. Note that Net Assessed Property Value for Secondary Tax Purposes is described as "Net Assessed Value" in the Property Tax Abstract.

**TABLE 7B**

**Comparative Net Full Cash Assessed Values *(a)***

| Fiscal Year | City of Flagstaff | Coconino County | State of Arizona |
|---|---|---|---|
| 2014/15 | $ 670,696,280 | $1,534,483,938 | $ 55,352,051,074 |
| 2013/14 | 661,062,990 | 1,533,065,282 | 52,594,377,492 |
| 2012/13 | 765,276,651 | 1,759,609,915 | 56,271,814,583 |
| 2011/12 | 791,371,939 | 1,840,142,610 | 61,700,292,915 |

*(a) Determined by Net Full Cash Assessed Value. See "PROPERTY TAXES – Limited Property Value" and – "Secondary Taxes" herein for a discussion of the use of Net Full Cash Assessed Value for fiscal years prior to 2015/16.*

Source: *Property Tax Rates Assessed Values*, Arizona Tax Research Association and *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue.

**TABLE 8**

**Estimated Net Full Cash Value History**
**City of Flagstaff, Arizona**

| Fiscal Year | Estimated Net Full Cash Value *(a)* |
|---|---|
| 2016/17 *(b)* | $6,225,457,752 |
| 2015/16 | 5,726,101,646 |
| 2014/15 | 5,294,387,779 |
| 2013/14 | 5,146,060,043 |
| 2012/13 | 5,965,784,765 |
| 2011/12 | 6,160,267,666 |

*(a)* *Estimated Net Full Cash Value is the total market value of the property within the City less the estimated Full Cash Value of property exempt from taxation within the City.*

*(b)* *The values are subject to positive or negative adjustments until approved by the Board of Supervisors of the County on or before August 15, 2016.*

Source: *State and County Abstract of the Assessment Roll,* Arizona Department of Revenue.

# FINANCIAL INFORMATION

**Introduction**

The City's fiscal year is from July 1 through June 30. City budgeting for a fiscal year formally begins with the preparation of a proposed budget for submission to the City Council for tentative adoption in early June of each year. After publication of the budget and a public hearing, a final budget is adopted for the upcoming fiscal year. The budget must contain detailed information concerning the sums required to be expended for each purpose and the City's tax levy is then set based on the adopted figures.

**Expenditure Limitation**

Beginning in fiscal year 1982/83, the City became subject to the annual expenditure limitation which is set by the Arizona Economic Estimates Commission. This limitation is based on the City's annual expenditures for fiscal year 1979/80, with this base adjusted to reflect interim population, cost of living and boundary changes. Certain expenditures are specifically exempt from the limit, including expenditures made from federal funds and bond sale proceeds, as well as debt service payments. The limitations can be exceeded for certain emergency expenditures or if approved by the voters. The constitutional provisions that relate to the expenditure limitation provide four processes to exceed the spending limit: a local home rule option, a permanent base adjustment, a one-time override, and a capital project accumulation.

Since the inception of expenditure limitations, the City has not exceeded its limitation in any fiscal year.

**Budget Process**

The annual budget serves as the foundation for Flagstaff's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the division level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning, and financial policy impacts, all of which are further identified below.

*Financial Resource Planning* – Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well-being of Flagstaff. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

The City is also developing policy regarding reserving funding generated from one-time resources to address aging infrastructure related to streets, facilities, water, wastewater, parks, and fleet.

*Multi-Year Budget Planning* – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity.

While the City is required to adopt an annual budget to meet State statutory requirements, Flagstaff builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives within limited or decreasing resources.

*Strategic Capital Improvement Project Planning* – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required, capital project plans are sized to conform to existing debt management policies.

*Financial Policy Planning* – The City of Flagstaff financial policies dictate minimum fund balance levels for the General, Special Revenue, and Enterprise Funds. The General Fund is required to maintain a fund balance of 15% of ongoing revenues and special revenue and enterprise funds are to maintain a 10% fund balance, as calculated against ongoing revenues. The City made a decision at the beginning of the recession in 2009 to allow the General Fund balance to reduce to 12% through FY 2012. While this eased some of the financial shortfall the City was experiencing, it did contribute toward a structural deficit as some ongoing services were funded with this one-time money. The City restored the 15% fund balance in FY 2013 and made a commitment to increase the fund balance to 20% over the next few years. The goal was met in FY 2014 and is planned to be maintained over the next five years.

**Financial Reports and Examination of Accounts**

State law requires that the City's financial books and records be audited by independent auditors, on an annual basis. Annually, independent certified public accountants audit the financial records as required by State law and the City's Charter. See Appendix D – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2015" for the financial statements from the City's June 30, 2015, Comprehensive Annual Financial Report. The City received a Certificate of Achievement for Excellence in Financial Reporting from GFOA for its 2015 Comprehensive Annual Financial Report as well as in each of the 22 preceding years.

**TABLE 9**

**Current Year Statistics (For Fiscal Year 2015/16)**
**City of Flagstaff, Arizona**

| | |
|---|---|
| Total General Obligation Bonds Outstanding and to be Outstanding | $ 63,392,672 *(a)* |
| Net Assessed Limited Property Value | 683,396,020 |
| Net Assessed Property Value for Secondary Tax Purposes | 683,396,020 |
| Net Full Cash Assessed Value *(b)* | 712,507,496 |
| Estimated Net Full Cash Value | 5,647,829,231 |
| Gross Full Cash Value *(b)* | 6,433,836,265 |

*The City's preliminary fiscal year 2016/17 Net Full Cash Assessed Value is estimated at $758,581,752, an increase of approximately 7.94% from the fiscal year 2015/16 Net Full Cash Assessed Value. The City's preliminary fiscal year 2016/17 Net Assessed Property Value for Secondary Tax Purposes is estimated at $702,767,941, an increase of approximately 2.83% from the fiscal year 2015/16 Net Assessed Property Value for Secondary Tax Purposes. The City's preliminary fiscal year 2016/17 estimated net Full Cash Value is estimated at $6,225,457,752, an increase of approximately 8.72% from the fiscal year 2015/16 estimated net Full Cash Value. The values are subject to positive or negative adjustments until approved by the Board of Supervisors of the County on or before August 15, 2016.*

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* *Subject to change.*

*(a)* *Includes the Bonds.*

*(b)* *As provided by the Abstract of the Assessment Roll, Arizona Department of Revenue.*

Source: *Abstract of the Assessment Roll,* Arizona Department of Revenue and *Property Tax Rates and Assessed Values,* Arizona Tax Research Association, the Treasurer of the County, the Assessor of the County and the Finance Department of the County. Note that Net Assessed Property Value for Secondary Tax Purposes is described as "Net Assessed Value" in the Property Tax Abstract.

**TABLE 10A**

**Direct General Obligation Bonded Debt Outstanding and to be Outstanding**
**City of Flagstaff, Arizona**

| Issue Series | Original Amount | Purpose | Final Maturity Date (July 1) | Balance Outstanding and to be Outstanding |
|---|---|---|---|---|
| 2006A | $31,500,000 | Various Purposes | 2023 | $ 7,750,000 |
| 2011 | 12,845,000 | Various Purposes | 2020 | 8,635,000 |
| 2011 | 1,633,828 | Water System | 2031 | 1,375,362 *(a)* |
| 2011 | 3,952,287 | Public Safety Communications | 2021 | 2,527,310 |
| 2013 | 11,460,000 | Various Purposes | 2028 | 10,235,000 |
| 2014A | 6,600,000 | Various Purposes | 2034 | 6,400,000 |
| 2014B | 8,270,000 | Refunding | 2021 | 8,270,000 |
| Total General Obligation Bonded Debt Outstanding | | | | $ 45,192,672 |
| Plus: The Bonds | | | | 18,200,000* |
| Total General Obligation Bonded Debt Outstanding and to be Outstanding | | | | $ 63,392,672* |

* *Subject to change.*

(a) *The City has paid and may continue to pay the debt service requirements on these general obligation bonds from water and sewer system revenues which remain after payment of operation and maintenance expenses of the system and revenue bond debt service. In the event that these net revenues should prove insufficient, or should the City decide not to pay such general obligation bonds from such net revenues, such general obligation bonds would then be paid from ad valorem taxes as described under "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS."*

**TABLE 10B**

**Certificates of Participation Outstanding**

| Issue Series | Original Amount | Purpose | Final Maturity Date (October 1) | Balance Outstanding and to be Outstanding |
|---|---|---|---|---|
| 2009 | $4,960,000 | Roadway Improvements and Fire Equipment | 2019 | $ 2,170,000 |
| Total Certificates of Participation Bonded Debt Outstanding | | | | $ 2,170,000 |

## TABLE 10C

**Water and Wastewater Revenue Obligations Outstanding**

The following chart lists the water and wastewater revenue obligations of the City that are currently outstanding. The City's financial obligations are through loan agreements with the Water Infrastructure Finance Authority of Arizona, a State revolving fund. Also see footnote *(a)* to TABLE 10A.

| Issue Series | Original Amount | Purpose | Final Maturity Date (July 1) | Balance Outstanding and to be Outstanding |
|---|---|---|---|---|
| 2002 | $6,775,760 | Water and Sewer Improvements | 2022 | $ 2,922,468 |
| 2006 | 7,900,000 | Water Infrastructure Acquisition | 2026 | 4,925,000 |
| 2007 | 23,100,000 | Sewer Treatment Plant Improvements | 2027 | 16,287,404 |
| 2008 | 8,500,000 | Water Production Improvements & Acquisition | 2028 | 6,209,093 |
| 2009 | 2,100,000 | Water Feasibility Study | 2029 | 2,147,107 |
| 2009 | 232,500 | Well Improvements | 2029 | 176,123 |
| 2009 | 1,100,000 | Local Aquifer Study | 2029 | 843,339 |
| 2009 | 594,950 | Well Improvements Infrastructure | 2029 | 403,871 |
| Total Water and Wastewater Revenue Obligations Outstanding | | | | $ 33,914,405 |

## TABLE 10D

The City of Flagstaff Municipal Facilities Corporation ("MFC") is an Arizona nonprofit corporation formed in January 1979. The City and the MFC have issued debt secured by Excise Taxes and State Shared Revenues as shown below.

**Excise Tax and State Shared Revenue Supported Debt**

| Issue Series | Original Amount | Purpose | Final Maturity | Balance Outstanding and to be Outstanding |
|---|---|---|---|---|
| 2010A | $3,370,000 | Construction of Business Incubator | 7/1/2030 | $ 2,710,000 *(a)* |
| 2012 | 12,530,000 | MFC Refunding | 7/1/2020 | 10,040,000 *(b)* |
| Total Excise Tax and State Shared Revenue Supported Debt Oustanding | | | | $ 12,750,000 |
| Plus: the 2016 Pledged Revenue Obligations *(c)* | | | | 10,000,000* |
| Total Excise Tax and State Shared Revenue Supported Debt Outstanding and to be Outstanding | | | | $ 22,750,000 |

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* *Subject to change.*

(a) *Under a loan agreement with the Greater Arizona Development Authority ("GADA"), the City has agreed to make semi-annual payments equal to the principal and interest on the GADA loan. The City has pledged State Shared Revenues to the payment of the GADA loan.*

(b) *Under an agreement with the MFC, the City has agreed to make semi-annual rent payments equal to the principal and interest on the MFC's bonds. The City has pledged Transportation Excise Taxes to the payment of the MFC's bonds.*

(c) *The City expects to offer approximately $10,000,000 of Pledged Revenue Obligations, Series 2016 pursuant to a separate official statement.*

**Debt Limitation**

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, light, parks and open space, transportation and public safety purposes may not exceed 20% of a city's Net Assessed Limited Property Value, nor may outstanding general obligation bonded debt for all other purposes exceed 6% of a city's Net Assessed Limited Property Value. In the following computation of the City's borrowing capacity, general obligation bonds that are to be supported from enterprise funds are included in the appropriate category.

**TABLE 11**

| **Water, Sewer, Light, Parks and Open Space, Transportation and Public Safety Purpose Bonds** | | **All Other General Obligation Bonds** | |
|---|---|---|---|
| 20% Constitutional Limitation | $136,679,204 | 6% Constitutional Limitation | $41,003,761 |
| Direct General Obligation Bonds Outstanding | 63,392,672* | Direct General Obligation Bonds Outstanding | 0 |
| Unused 20% Limitation Borrowing Capacity | $73,286,532* | Unused 6% Limitation Borrowing Capacity | $41,003,761 |

* *Subject to change.*

**TABLE 12**

**Direct and Overlapping General Obligation Bonded Debt**
**City of Flagstaff, Arizona**

| Overlapping Jurisdiction | General Obligation Bonded Debt *(b)* | Proportion Applicable to the District *(a)* Approximate Percent | Net Debt Amount |
|---|---|---|---|
| State of Arizona | None | 1.25 % | None |
| Coconino County | None | 44.45 | None |
| Coconino County Community College District | $ 7,775,000 | 44.45 | $ 3,455,988 |
| Coconino Association for Vocations, Industry and Technology | None | 51.72 | None |
| Flagstaff Unified School District No. 1 | 33,900,000 | 64.94 | 22,014,660 |
| City of Flagstaff *(c)* | 63,392,672* | 100.00 | 63,392,672* |
| Net Direct and Overlapping General Obligation Bonded Debt | | | $ 88,863,320* |

* *Subject to change.*

(a) *Proportion applicable to the City is computed on the ratio of Net Assessed Property Value for Secondary Tax Purposes for 2015/16.*

(b) *Includes total stated principal amount of general obligation bonds outstanding. Does not include outstanding principal amount of certificates of participation, revenue obligations or loan obligations outstanding for the jurisdictions listed above. Does not include outstanding principal amounts of various County and City improvement districts, as the bonds of these districts are presently being paid from special assessments against property within the various improvement districts.*

*Does not include presently authorized but unissued general obligation bonds of such jurisdictions which may be issued in the future as indicated in the following table. Additional bonds may also be authorized by voters within overlapping jurisdictions pursuant to future elections.*

| *Overlapping Jurisdiction* | *General Obligation Bonds Authorized but Unissued* |
|---|---|
| *Flagstaff Unified School District No. 1* | *$10,190,000* |
| *City of Flagstaff (c)* | *9,162,713** |

(c) *Includes the Bonds. Does not include any additional bonds that may be authorized at future elections.*

Source: The various entities, *Property Tax Rates and Assessed Values*, Arizona Tax Research Association, *the Property Tax Abstract*, Arizona Department of Revenue and the Assessor of the County. Note that Net Assessed Property Value for Secondary Tax Purposes is described as “Net Assessed Value” in the Property Tax Abstract.

## TABLE 13

**Direct and Overlapping General Obligation Bonded Debt Ratios**
**City of Flagstaff, Arizona**

| | Per Capita Bonded Debt Population Estimated @ 70,463 | As % of City's 2015/16 Net Assessed Property Value for Secondary Tax Purposes | As % of City's 2015/16 Estimated Net Full Cash Value |
|---|---|---|---|
| Net Direct General Obligation Bonded Debt* *(a)* | $ 899.66 | 9.28% | 1.11% |
| Net Direct and Overlapping General Obligation Debt* *(a)* | 1,261.13 | 13.00 | 1.55 |

* *Subject to change.*

*(a)* *Includes the Bonds.*

Source: *The Property Tax Abstract,* Arizona Department of Revenue, *Property Tax Rates and Assessed Values,* Arizona Tax Research Association, U.S. Census Bureau and the Arizona Department of Economic Security, Research Administration Population Statistical Unit. Note that Net Assessed Property Value for Secondary Tax Purposes is described as "Net Assessed Value" in the Property Tax Abstract.

## TABLE 14

**Other Obligations**
**City of Flagstaff, Arizona**

The City has entered into lease agreements that generally require annual payments and the lease terms vary from 10 to 21 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception. The capital lease agreement for renewable energy solar equipment related to governmental activities has assets of $967,169. Capital lease agreements related to business-type activities consist of the construction of a co-generator at the Wildcat Wastewater Treatment Plant, $1,014,527, construction of airport hangars, $489,382, renewable energy solar equipment, $1,709,103. Please refer to APPENDIX D – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for additional information.

The City has the following capital lease payment obligations:

| Year Ending June 30 | Capital Lease Payments |
|---|---|
| 2016 | $ 729,285 |
| 2017 | 730,874 |
| 2018 | 481,574 |
| 2019 | 483,297 |
| 2020 | 485,087 |
| Thereafter | 3,107,906 |

# CITY EMPLOYEE RETIREMENT SYSTEM

**Pension and Retirement Plans / Other Post-Employment Benefits**

The City contributes to three separate defined benefit pension plans for the benefit of all general employees of the City and elected officials. **Please refer to APPENDIX D – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for a more detailed description of these plans and the City contributions to the various plans.**

The Arizona State Retirement System ("ASRS"), a cost-sharing, multiple employee defined benefit plan, 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.

For the year ended June 30, 2014, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 11.54% (11.30% for retirement and for health insurance premiums, and 0.24% long-term disability) of the members' annual covered payroll. The annual contribution for the fiscal year ending June 30, 2015 is 11.60% (11.48% retirement pension and health insurance premiums, 0.12% long-term disability). The annual contribution rate for the fiscal year ending June 30, 2016 is 11.47% (11.35% retirement pension and health insurance premiums, 0.12% long-term disability). The City's employer contributions to ASRS for the years ended June 30, 2015, 2014, and 2013 were $3.2 million, $3.1 million, and $3.0 million, respectively, which were equal to the required contributions for the year. The City's employee contributions to ASRS were equal to the employers required contributions.

Additionally, other enacted State legislation made changes to how ASRS operates, effective July 1, 2011, which includes requiring employers to pay an alternative contribution rate for retired employees of ASRS that return to work, changing the age at which an employee can retire without penalty based upon years of service, limiting permanent increases in retirement benefits and establishing a Defined Contribution and Retirement Study Committee (as defined in the legislation) that will review the feasibility and cost to changing the current defined benefit plan to a defined contribution plan.

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 will also require 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 System. As of June 30, 2015, the City reported a liability of $44.8 million for its proportionate share of the net pension liability under the System. The pension liability was measured as of June 30, 2014. See page 86 and 87 in APPENDIX D – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for further discussion of the City and its pension liability as of June 30, 2014.

The Public Safety Personnel Retirement system ("PSPRS") an agent multiple-employer defined benefit plan that covers public safety personnel who are regularly assigned to hazardous duties, for which the Arizona State Legislature establishes and may amend active plan members' contribution rate, 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. The increase in the PSPRS's unfunded liabilities is expected to result in increased future annual contributions to PSPRS by the City and its 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, and the City was required to contribute at the actuarially determined rate of 19.65% for PSPRS of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to PRSPRS. During fiscal year 2015, the City paid for PSPRS pension and

OPEB contributions for police with 100% general fund dollars and 96.4% from the general fund plus 3.6% from the airport fund as related to fire contributions.

Under PSPRS for the fiscal year ending June 30, 2016, the employee contribution rate is set by statute at 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 Directors has adopted a three year 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. Other litigation relating to the 2011 legislation remains outstanding. If the ultimate outcome overturns additional portions of the legislation, there will be further adverse impacts on the funded ration and the actuarially determined contribution rates.

*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.

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, will require new public employees to serve until the age of 55 before being eligible for full pension benefits. The new legislation will also cap pension benefits for new hires and split the cost of pensions 50/50 between employers and new employees, offer new hires the option of a 100% defined contribution plan and tie cost-of-living adjustments to the regional Consumer Price Index, with a cap of 2% (the "COLA Provision"). The COLA Provision will also apply to current members of the PSPRS if approved by the voters at an election scheduled for May 17, 2016.

The Elected Officials Retirement Plan ("EORP") is a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers elected officials and judges of certain state and local governments. The EORP is governed by the same Board of Trustees that manages the PSPRS plan. As of January 1, 2014 EORP is closed to new members. Pursuant to Arizona statute, the annual contribution for active members of EORP is 13% of the members' annual covered payroll. Although the actuarially determined employer contribution rate for FY 2016-17 is 95.56% of covered payroll, pursuant to current State law participating EORP employers are required to annually contribute 23.50% of covered payroll for elected officials and eligible judges. This amount is distributed to EORP, the Elected Officials Defined Contribution Retirement System (EODCRS) and the Arizona State Retirement (defined benefit) System (ASRS), depending on the retirement program in which each eligible employee participates. As a percent of covered payroll, the employer contribution rate, by statute, for EODCRS participating members is 6.00%; the employer contribution rate for ASRS participating members is 11.48% for FY 2016-17; and all remaining employer contributions, up to 23.50% of the covered payroll of all elected officials and eligible judges, are remitted to EORP. The EORP employer contribution is additionally funded each year with designated state and county court fees and a $5,000,000 appropriation from the State general fund. For FY 2016-17 the total EORP employer contribution is expected to be approximately $30,000,000 lower than the actuarially determined employer contribution.

**Other Post-Employment Benefits**

The City provides post-retirement healthcare insurance benefits for its retirees as an agent multiple-employer plan which is administered through, Northern Arizona Public Employee Benefit Trust (NAPEBT). NAPEBT provides benefits to eligible retirees through the same plan as active city employees and their beneficiaries up to the age of 65; the implicit rate subsidy exists through the duration of the coverage. Substantially, all of the City's employees may become eligible for those benefits when they qualify for retirement. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System and elect coverage at date of retirement. NAPEBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on their website: [www.napebt.com/community_docs](www.napebt.com/community_docs). As of June 30, 2015, there were 85 retirees who elected coverage. The contribution requirements of plan members and the city are established and may be amended by the NAPEBT board. Eligible retirees up to the age of 65 have the option to participate in the healthcare plan that is currently offered to active employees and must pay 100% of the premium less any reimbursement from the Arizona State Retirement System, currently, a monthly stipend of $150 for single coverage and $260 for family coverage. The City has elected to not fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's implicit subsidy rate to covered payroll is actuarially determined at 30.4%. Plan members receiving benefits contributed $182,941 during fiscal year 2015.

There are no other OPEB liabilities.

## REVENUES AND EXPENDITURES

State law requires that the City's financial books and records be audited by the State Auditor General or independent certified public accountants on an annual basis. The audited financial statements of the City are presented in APPENDIX D as "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

The table on the following page summarizes audited Revenues, Expenses and Changes in Fund Balance for the fiscal years 2010/11 through 2014/15 and estimated information for 2015/16. The information contained in the summary should be read in conjunction with the financial statements and accompanying notes in APPENDIX D of this Official Statement.

**TABLE 15**

## General Fund
## City of Flagstaff, Arizona

| | Estimate | Audited | | | | |
|---|---|---|---|---|---|---|
| | 2015/16 *(a)* | 2014/15 | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
| FUND BALANCE AT BEGINNING OF YEAR | $ 33,621,090 | $ 31,762,789 | $ 28,748,008 | $ 25,680,223 | $ 23,352,187 | $ 23,256,335 |
| REVENUES | | | | | | |
| Taxes | 26,687,083 | $ 25,908,705 | $ 25,100,084 | $23,534,907 | $22,721,059 | $21,491,083 |
| Intergovernmental | 17,872,250 | 17,574,331 | 16,516,056 | 15,494,513 | 14,062,644 | 13,951,414 |
| Grants and entitlements | 2,048,747 | 1,294,384 | 1,726,644 | 1,659,326 | 1,948,711 | 2,234,162 |
| Charges for services | 3,208,950 | 2,986,151 | 2,734,095 | 3,237,728 | 3,220,137 | 2,844,246 |
| Licenses and permits | 2,326,680 | 1,866,792 | 1,952,731 | 1,656,135 | 1,681,874 | 738,594 |
| Fines and forfeitures | 1,161,080 | 1,389,663 | 1,428,401 | 1,540,989 | 1,601,044 | 1,673,306 |
| Rents | 2,113,843 | 1,603,322 | 1,606,932 | 1,611,306 | 1,551,419 | 1,537,188 |
| Investment earnings | 264,000 | 374,174 | 418,374 | (739,244) | 93,900 | 63,004 |
| Contributions | 47,000 | 262,095 | 440,360 | 159,340 | 187,320 | 89,914 |
| Miscellaneous | 807,113 | 305,932 | 393,760 | 425,409 | 142,557 | 46,713 |
| TOTAL REVENUES | $56,536,746 | $53,565,549 | $52,317,437 | $48,580,409 | $47,210,665 | $44,669,624 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Issuance of capital debt | $ - | $ - | $ - | $ 1,014,557 | $ - | $ - |
| Sale of capital assets | - | 72,051 | 533,980 | 40,796 | 36,690 | 44,291 |
| Insurance recoveries | - | - | 3,033,042 | - | - | 1,058,985 |
| Reserve and contingency | - | - | (3,287,452) | - | - | - |
| Transfers in | 3,335,613 | 2,848,218 | - | 2,261,384 | 3,831,006 | 4,396,093 |
| Transfers out | (5,890,074) | (4,132,795) | - | (2,702,301) | (4,426,254) | (4,586,907) |
| Reclassification of funds *(b)* | | - | - | 423,828 | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | $ 87,603,375 | $ 84,115,812 | $ 81,345,015 | $ 75,298,896 | $ 70,004,294 | $ 68,838,421 |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Current governmental | $ 14,548,204 | $ 9,809,718 | $ 8,914,237 | $8,474,220 | $7,453,963 | $6,975,866 |
| Public safety | 30,646,214 | 27,583,880 | 26,564,902 | 25,092,004 | 24,428,893 | 24,473,320 |
| Public works | 1,056,538 | 1,081,157 | 999,999 | 1,106,896 | 1,146,692 | 1,299,027 |
| Economic and physical development | 4,578,865 | 4,682,707 | 4,441,463 | 3,993,179 | 3,956,299 | 4,246,370 |
| Culture and recreation | 6,435,531 | 5,750,634 | 6,084,457 | 5,987,474 | 5,653,437 | 5,500,631 |
| Contingency | 100,000 | - | - | - | - | - |
| Less indirect charges | (5,641,543) | - | - | - | - | - |
| Debt service | | | | | | |
| Principal retirement | 668,256 | 721,549 | 882,114 | 853,902 | 818,798 | 842,009 |
| Interest and other charges | 154,260 | 93,304 | 128,976 | 124,348 | 157,523 | 177,380 |
| Capital outlay | 2,451,262 | 771,773 | 1,566,078 | 918,865 | 708,466 | 1,971,631 |
| TOTAL EXPENDITURES | $ 54,997,587 | $ 50,494,722 | $ 49,582,226 | $ 46,550,888 | $ 44,324,071 | $ 45,486,234 |
| **FUND BALANCE AT END OF YEAR** | **$ 32,605,788** | **$ 33,621,090** | **$ 31,762,789** | **$ 28,748,008** | **$ 25,680,223** | **$ 23,352,187** |

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*(a)* *Fiscal year 2015/16 is estimated, as provided by the City. Figures are "forward looking statements" and should be viewed with an abundance of caution.*

*(b)* *Fiscal year 2013/14 beginning fund balance was restated as the City elected to change the way debt service is recognized as related to the application of early recognition related to debt service within the governmental funds.*

## APPENDIX B

# FORM OF OPINION OF BOND COUNSEL

**<u>DRAFT</u>**

[LETTERHEAD OF GREENBERG TRAURIG]

[Closing Date]

Mayor and Council of the
City of Flagstaff, Arizona
211 West Aspen Avenue
Flagstaff, Arizona 86001 5399

Re: City of Flagstaff, Arizona General Obligation Bonds, Series 2016

We have examined copies of the proceedings of the Mayor and Council of the City of Flagstaff, Arizona (the "City"), and other proofs submitted to us relative to the issuance of the captioned Bonds (the "Bonds").

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid proceedings and proofs.

We are of the opinion that such proceedings and proofs show lawful authority for the sale and issuance of the Bonds pursuant to the Constitution and laws of the State of Arizona now in force and that the Bonds are valid and legally binding obligations of the City, all of the taxable property within which is subject to the levy of a tax without limitation as to rate or amount to pay the principal of and interest on the Bonds.

Under existing statutes, regulations, rulings and court decisions, subject to the assumption stated in the last sentence of this paragraph, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and the interest on the Bonds is exempt from income taxation under the laws of the State of Arizona. Furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the City must continue to meet after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The failure of the City to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retro-active to their date of issuance. The Mayor and Council of the City have ordained in Ordinance No. 2016-__, adopted by the Mayor and Council of the City on June 7, 2016 (the "Ordinance"), to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. (Subject to the same limitations in the penultimate paragraph hereof with respect to such covenants, the City has full legal power and authority to comply with such covenants.) We express no opinion regarding other tax consequences resulting from the ownership, receipt or accrual of interest on, or disposition of, the Bonds. In rendering the opinion expressed above, we have assumed continuing compliance with the tax covenants referred to above that must be met after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal tax purposes.

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* *Subject to change.*

The rights of the holders of the Bonds and the enforceability of those rights may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights. The enforcement of those rights may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

This 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,

**APPENDIX C**

**FORM OF CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (b)(5) OF RULE 15c2-12**

**DRAFT**

$18,200,000*
City of Flagstaff, Arizona
General Obligation Bonds,
Series 2016
(CUSIP BASE NUMBER 338423)

This Continuing Disclosure Undertaking (this "Undertaking") is executed and delivered on behalf of the City of Flagstaff, Arizona (the "City"), in connection with the sale and issuance of the captioned Bonds.

In connection with the Bonds, the City covenants and agrees as follows:

1. Definitions. In addition to the terms defined hereinabove, the terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires:

*"Annual Information"* means the financial information and operating data set forth in Exhibit I.

*"Annual Information Disclosure"* means the dissemination of disclosure concerning Annual 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.

"*Listed Event*" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II.

*"MSRB"* means the Municipal Securities Rulemaking Board.

*"Underwriter"* means the broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

*"Rule"* means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

*"State"* means the State of Arizona.

*"Undertaking"* means the obligations of the City pursuant to Sections 4, 5, 6 and 7 hereof.

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* *Subject to change.*

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 Bonds and in order to assist the Underwriter in complying with the requirements of the Rule.

3. CUSIP Number/Final Official Statement. The Base CUSIP Number of the Bonds is 338423. The Final Official Statement relating to the Bonds is dated _______, 2016.

4. Annual Information Disclosure. Subject to Section 8 of this Undertaking, the City shall disseminate the Annual Information and the Audited Financial Statements, if any (in the form and by the dates set forth in Exhibit I), to the MSRB through EMMA, in a format prescribed by the MSRB. The City is required to deliver such information in such manner and by such time so that such entity receives the information on the date specified.

If any part of the Annual 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 the Annual Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual 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 hereby covenants that it will disseminate notice of occurrence of a Listed Event to the MSRB through EMMA not later than ten business days after the occurrence of the Listed Event, in a format prescribed by the MSRB, except that for the events 2, 7, 10, 13 and 14, listed in Exhibit II, the City will provide such notice if it determines that such event would be material under applicable federal securities laws.

6. Consequences of Failure of the City to Provide Information. The City shall give notice in a timely manner to the MSRB through EMMA, in a format prescribed by the MSRB, of any failure to provide Annual 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 Bond 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 an event of default on the Bonds or the ordinance pursuant to which they were authorized. The sole remedy 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 provision of this Undertaking, the City by certified resolutions authorizing each amendment or waiver, may amend this Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment 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, 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 does not materially impair the interests of the beneficial owners of the Bonds, as determined by an independent counsel or other entity unaffiliated with the City.

8. Non-Appropriation. The performance by the City of its obligations in this Undertaking shall be subject to the annual appropriation of any funds that may be necessary to permit such performance. In the event of a failure by the City to comply with its covenants under this Undertaking due to a failure to appropriate the necessary funds, the City covenants to provide prompt notice of such fact to the MSRB through EMMA, in a format prescribed by the MSRB.

9. Termination of Undertaking. This Undertaking shall be terminated hereunder if the City shall no longer have liability for any obligation or relating to repayment of the Bonds. The City shall give notice in a timely manner if this Section is applicable to the MSRB through EMMA, in a format prescribed by the MSRB.

10. 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.

11. 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 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 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 disclosure or notice of occurrence of a Listed Event.

12. Beneficiaries. This Undertaking has been executed in order to assist the 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 Bonds, and shall create no rights in any other person or entity.

13. Recordkeeping. The City shall maintain records of all Annual Information Disclosure and notices of occurrence of Listed Events including the content of such disclosure or notices, the names of the entities with whom such disclosure or notices were filed and the date of filing such disclosure or notices.

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

CITY OF FLAGSTAFF, ARIZONA

By:____________________________________
Rick Tadder, Management
Services Director

Address: 211 West Aspen Avenue
Flagstaff, Arizona 86001-5399

Dated: [Closing Date]

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND AUDITED FINANCIAL STATEMENTS

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 to the MSRB, in a format prescribed by the MSRB. If the information included by reference is contained in an Official Statement, the Official Statement must be available from the MSRB. The City shall clearly identify each such item of information included by reference.

The Annual Financial Information exclusive of the Audited Financial Statements will be provided to the MSRB through EMMA, in a format prescribed by the MSRB, if any, no later than the first business day of February in each year commencing February 1, 2017. The Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If the Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by the Audited Financial Statements when available.

The Audited Financial Statements will be prepared according to generally accepted accounting principles, as applied to governmental units as modified by State law. The Audited Financial Statements will be provided to the MSRB through EMMA, in a format prescribed by the MSRB, within 30 days after availability to the City.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Undertaking, the City will disseminate a notice of such change as required by Section 4, including changes in fiscal year or accounting principles.

"Annual Financial Information" means the quantitative financial information and operating data of the type included in the Final Official Statement relating to the Bonds on the following pages:

__________________________________

__________________________________

__________________________________

EXHIBIT II

EVENTS FOR WHICH NOTICE OF OCCURRENCE
OF LISTED EVENTS 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 material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the City;

    Note: for the purposes of the event identified in paragraph 12, the event is considered to occur when 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 governmental 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 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 additional trustee or the change of name of a trustee; if material.

**APPENDIX D**

# THE CITY

## AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

## APPENDIX E

# BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds 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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, 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 Securities 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 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.

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

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Bond Registrar and Paying Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and interest on the Bonds and the redemption price of any Bond 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 or the Bond Registrar and Paying Agent, 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 Bond Registrar and Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Bonds and the redemption price of any Bonds will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Bond Registrar and Paying Agent, 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 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, 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 the City takes no responsibility for the accuracy thereof.