Tom Armstrong	Eric Granillo	John McCafferty	Sherri Phillips	Larry Holt	Robert Switzer	John Stankewicz
Mayor	Vice-Mayor	Councilmember	Councilmember	Councilmember	Councilmember	Councilmember

TOWN COUNCIL NOTICE & AGENDA

REGULAR MEETING
TUESDAY, JUNE 9, 2026
6:00 PM

COUNCIL CHAMBERS | 202 N. STATE ROUTE 89 | CHINO VALLEY, ARIZONA 86323

A majority of the Councilmembers may attend a private invocation in the Council Conference Room immediately prior to the Council meeting. No Town business will be discussed.

AGENDA

1. CALL TO ORDER; PLEDGE OF ALLEGIANCE; ROLL CALL

2. INTRODUCTIONS, PRESENTATIONS, AND PROCLAMATIONS

a. Presentation of Certificate of Appreciation to Steven Sullivan, Assistant Public Works Director/Town Engineer.

b. Introduction of new Public Works Director, Ryan Anderson.

3. CALL TO THE PUBLIC - Individuals requesting to speak, please complete a Speaker Comment Card and return to the Clerk.

Call to the Public is an opportunity for the public to address the Council on any issue within the jurisdiction of the Council. Public comment is at the discretion of the Council and not required by law. Individuals are limited to speak for three (3) minutes, yielding of time will not be permitted. The total time for Call to the Public may be up to 30 minutes per meeting. Council action taken as a result of public comment on items not on the agenda will be limited to directing staff to study the matter, scheduling the matter for further consideration and decision at a later date, or responding to criticism. Public comment is invited and encouraged, however, personal attacks on individuals is not appropriate. Disrespectful behavior will not be tolerated; this includes loud outbursts, profanity, and disruptive discussions among our audience.

4. CURRENT EVENT SUMMARIES AND REPORTS

This item is for information only. The Mayor, any Councilmember, or Town Manager may present a brief summary or report of current events. If listed below, there may also be a presentation on information requested by the Mayor and Council and questions may be answered. No action will be taken.

a. Status reports by Mayor and Council regarding current events.

b. Status report by Town Manager Terri Denemy regarding Town accomplishments, and current or upcoming projects.

5. CONSENT AGENDA

All those items listed below are considered to be routine and may be enacted by one motion. Any Councilmember may request to remove an item from the Consent Agenda to be considered and discussed separately.

a. Consideration and possible action to approve the FY2027 affiliate agreement with the Yavapai County Free Library District for library support services.

b. Consideration and possible action to adopt Resolution No. 2026-1318 designating Kathryn Pehl, Finance Director, as the Chief Fiscal Officer responsible for officially submitting the Fiscal Year 2027 Annual Expenditure Limitation Report to the Arizona Auditor General.

c. Consideration and possible action to approve the May 26, 2026, regular meeting minutes.

6. ACTION ITEMS

The Council may vote to recess the public meeting and hold an Executive Session on any item on this agenda pursuant to A.R.S. § 38-431.03(A)(3) for the purpose of discussion or consultation for legal advice with the Town Attorney. Executive sessions are not open to the public and no action may be taken in executive session.

a. Consideration and possible action to approve Resolution No. 2026-1320 authorizing the loan acceptance of a $10 Million Clean Water State Revolving Fund loan from WIFA for the Water Reclamation Facility Improvements and the execution and delivery of the loan agreement with WIFA.

Recommended Action: Approve Resolution No. 2026-1320 authorizing the loan acceptance of a $10 Million Clean Water State Revolving Fund loan from WIFA for the Water Reclamation Facility Improvements and the execution and delivery of the loan agreement with WIFA.

b. Consideration and possible action to approve Resolution No. 2026-1319 adopting the PSPRS Pension Funding Policy and authorizing the use of $250,000 out of the Town's General Fund Contingency Account to reduce the Public Safety Personnel Retirement System (PSPRS) unfunded liability amount.

Recommended Action: Approve Resolution No. 2026-1319 adopting the PSPRS Pension Funding Policy and authorizing the use of $250,000 out of the Town's General Fund Contingency Account to reduce the Public Safety Personnel Retirement System (PSPRS) unfunded liability amount.

7. ADJOURNMENT

Dated this 4th day of June, 2026.

By: *Erin N. Deskins, Town Clerk*

The Town of Chino Valley endeavors to make all public meetings accessible to persons with disabilities. Please call 928-636-2646 (voice) or 711 (Telecommunications Arizona Relay Service) 48 hours prior to the meeting to request reasonable accommodation to participate in this meeting. Citizens will have access to the meeting room 30 minutes prior to the start time of each meeting.

Council meetings are live-streamed on Town of Chino Valley website, www.chinovalleyaz.gov.

CERTIFICATION OF POSTING

The undersigned hereby certifies that a copy of this notice was duly posted at Chino Valley South Campus, Chino Valley Post Office, and Chino Valley North Campus in accordance with the statement filed by the Town Council with the Town Clerk.

Date: ___________________ Time: ___________________ By: ____________________
Erin N. Deskins, Town Clerk

TOWN COUNCIL
AGENDA ITEM STAFF REPORT

AGENDA ITEM # 5a
MEETING DATE: 6/9/2026
CONTACT PERSON: Cyndi Thomas, Community Services Director
ITEM TYPE: Consent Item

AGENDA ITEM TITLE:
Consideration and possible action to approve the FY2027 affiliate agreement with the Yavapai County Free Library District for library support services.

SUMMARY:
The Yavapai County Free Library District is a special taxing subdivision of the State of Arizona that was established in 1987 to provide library services to participating town and city libraries and unincorporated areas in Yavapai County. The Town of Chino Valley has historically determined it is in the Town's best interest to enter into agreements whereby the District shall provide data services, support, and other library services to the Town of Chino Valley Library. The initial term of this agreement shall commence on July 1, 2026, and shall continue through June 30, 2027.

PREVIOUS ACTION:
In May 2025, the Town Council approved the last affiliate agreement commencing on July 1, 2025 through June 30, 2026.

STAFF RECOMMENDATION:
Approve the FY2027 affiliate agreement between the Town and the Yavapai County Free Library District for library support services.

FISCAL IMPACT?
This agreement will allow the Town to receive an allocation of approximately $94,044.87 to support library operations.

ATTACHMENTS:

1.	2026-05-7 YCFLD Affiliate Agreement Chino Valley-edit1

AFFILIATE LIBRARY AGREEMENT BETWEEN THE YAVAPAI COUNTY FREE LIBRARY DISTRICT AND THE TOWN OF CHINO VALLEY

This Affiliate Library Agreement (hereinafter referred to as this "Agreement") is made by and between the Yavapai County Free Library District, a special taxing subdivision of the State of Arizona (hereinafter referred to as "DISTRICT"), and the Town of Chino Valley, a(n) Arizona corporation / non-profit corporation / a political subdivision of the State of Arizona (hereinafter referred to as "AFFILIATE"). DISTRICT and AFFILIATE may each be referred to individually as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, DISTRICT is a special taxing subdivision of the State of Arizona established in 1987 for the purpose of providing library services to participating town and city libraries and unincorporated areas of Yavapai County, pursuant to A.R.S. §§ 48-3901 *et seq.*; and,

WHEREAS, DISTRICT is authorized to exercise the powers granted generally to municipal corporations by the constitution and laws of the State of Arizona, pursuant to A.R.S. § 48-3902; and,

WHEREAS, DISTRICT is a county free library district established and maintained pursuant to A.R.S. § 11-901; and,

WHEREAS, AFFILIATE has requested affiliate status with the DISTRICT and pursuant to the powers granted to DISTRICT in accordance with A.R.S. §48-3902, and/or AFFILIATE previously applied for and received affiliate status with the DISTRICT pursuant to A.R.S. §11-903, and is therefore eligible to receive support from DISTRICT; and DISTRICT desires to provide library support services and enter into Agreement with AFFILIATE to provide those library support services as set forth herein, as those service are of value to the residents of Yavapai County; and

WHEREAS, DISTRICT acknowledges that the services to be performed by the AFFILIATE have a value to the residents of Yavapai County and that if AFFILIATE did not perform library services for its community, then DISTRICT may have to bear the costs of providing library services to residents benefitting from the AFFILIATE.

WHEREAS, the Parties have determined that it is in their mutual interest to enter into an agreement whereby DISTRICT shall provide support and other library services (collectively referred to as "library support services") to AFFILIATE, subject to the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises and conditions set forth below and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to become legally bound, agree as follows:

1. **Term of Agreement**. The initial term of this Agreement shall commence on July 1, 2026, and shall continue through June 30, 2027.

2. **Termination.**

   2.1. **Termination for Convenience/Without Cause.** Either Party may terminate or cancel this Agreement at any time for any reason, with or without just cause, with ninety (90) days written notice to the other Party specifying the termination date.

   2.2. **Termination for Breach.** In the event of a breach of any term or condition of this Agreement by any Party, the Party claiming a breach shall provide written notice to the Party for which a breach is alleged, with said notice setting forth the factual basis for the determination that a breach has occurred. If the alleged breach is not remedied within fifteen (15) days of receipt of the notice by the Party for which a breach is alleged, this Agreement may terminate, at the option of the Party alleging a breach.

   2.3. **Residual Obligations.** Unless otherwise expressly agreed by the Parties, all obligations of the Parties, including payment of charges and fees, for the fiscal year during which termination is effective shall remain in full force and effect and binding on the respective Parties. AFFILIATE agrees to forfeit any right, title, or interest in tangible or intangible monies, materials, equipment, or property contributed or allocated to the DISTRICT if AFFILIATE terminates this Agreement or is no longer a participant in the Yavapai Library Network (YLN).

   2.4. **Cancellation for Conflict of Interest.** This Agreement is subject to cancellation pursuant to A.R.S. §38-511, the pertinent provisions of which are incorporated herein by reference.

3. **Duties and Obligations for Library Support Services.**

   3.1. AFFILIATE shall provide equal access to use all of AFFILIATE's facilities and services, including core services such as borrowing privileges and computer use, if available, free of charge, to all the residents of Yavapai County.

   3.2. DISTRICT and AFFILIATE shall cooperate in planning and implementing resource sharing activities acceptable to DISTRICT and AFFILIATE. Shared resources shall be free to Yavapai County residents, except if there are inter-library loans or materials sent to/from a library that is not a participant in the YLN. If the borrowing/lending library is not a participant of the YLN, then postage recovery costs for library materials may be passed on to the user, up to a maximum total cost of $6.00 per item or transaction.

   3.3. AFFILIATE may be eligible for a distribution of funds from DISTRICT according to the formula as set forth in "AFFILIATE CONTRIBUTION FORMULA" attached hereto as Exhibit C.

   3.4. The Parties recognize and acknowledge that DISTRICT is a governmental entity, and that, if applicable, AFFILIATE is a governmental entity. The Parties recognize that the availability or unavailability of public funding, or changes in the allocation of said public funding, may cause one or both Parties to this Agreement to encounter difficulty fulfilling the anticipated duties and obligations of the Parties set forth under this Agreement. In the event public funds are not appropriated for the performance of either Party's obligations under this Agreement, then the Party who is subject to the reduced or non-appropriated funding shall notify the other Party in writing of any such non-allocation of funds or reduction in funding allocation at the earliest possible date. In such an instance, the Parties agree to discuss in good faith the possibility of temporary reduction in scope of this Agreement. If no mutually agreeable resolution of the matter of temporary reduction in scope can be reached by the Parties, the Parties shall terminate this Agreement pursuant to Section 2.1 herein (either Party may initiate said Termination), with residual obligations handled pursuant to Section 2.3 herein. If the Parties are able to reach mutually agreeable resolution of the matter of temporary reduction in scope, then the specific terms of the reduction in scope, other relevant and related terms, and the time period of reduction in scope must be set forth as an Addendum to this Agreement, in writing and signed by both Parties, in order to be valid.

3.5. AFFILIATE agrees and acknowledges that DISTRICT, in its sole discretion, may or may not allocate funds for a contribution, and although there may be distribution or disbursement / contribution of funds from DISTRICT TO AFFLILIATE that may occur during the term of this agreement, there is no obligation for DISTRICT to distribute or disburse / contribute any funds to AFFLILIATE at any time.

3.6. AFFILIATE shall complete the Yavapai County Free Library District Affiliate Contribution Request Form which is attached as Exhibit B before **May 29th, 2026**. AFFILIATE will only be eligible to receive funds if the YCFLD Affiliate Request form is completed and received by **May 29th, 2026**. AFFILIATE may be asked to present their proposal to the Board of Directors of the Library District at a public meeting. DISTRICT reserves the right to request and require additional information or explanation and/or clarification of information contained in the Affiliate Contribution Request Form and the AFFILIATE'S responses thereto, and AFFILIATE agrees to cooperate and provide such information, explanation, and/or clarification as requested by DISTRICT.

3.7. AFFILIATE agrees and acknowledges that the combined contribution for funds for the Fiscal Year (FY) covered by this agreement, before the Contribution Formula is applied, is **$1,440,000**, as evidenced on Exhibit C.

3.8. Exhibit C also lists the eligible contribution amounts for each affiliate should the Affiliate Contribution Request Form (Exhibit B) be properly submitted and accepted.

3.9. AFFILIATE may receive an annual contribution so long as AFFILIATE is a participant of the YLN.

3.10. If AFFILIATE receives funds from DISTRICT, then AFFILIATE shall solely use funds received from DISTRICT to directly support library operations, and AFFILIATE shall provide a certification on or before **July 31, 2027** that AFFILIATE has solely used funds from DISTRICT to directly support the library. The Certification Form is Exhibit A of this agreement.

3.11. AFFILIATE agrees and acknowledges that all unused funds AFFILIATE receives from DISTRICT in a fiscal year shall be forfeited to DISTRICT.

3.12. AFFILIATE agrees and acknowledges that contributions and funds that are declared for a specific purpose shall be used for their declared purpose. Any declared purpose(s) will be stated in an award letter sent by the DISTRICT after this agreement has been approved.

3.13. AFFILIATE agrees and acknowledges that contributions and funds that are not used for their declared purpose are forfeited and shall be the property of DISTRICT. AFFILIATE shall be responsible to return, refund, and/or reimburse to DISTRICT any and all funds that are not used for their declared purpose.

3.14. All library materials purchased with DISTRICT funds for AFFILIATE are the property of the AFFILIATE.

3.15. AFFILIATE will provide recognition for the DISTRICT in all publicity collateral, including but limited to, websites, brochures, posters, etc. and such recognition will be "This service is funded and made available by the Yavapai County Free Library District" for services and materials provided by DISTRICT or utilizing DISTRICT funding except for books, DVDs, video games or other such physical materials made available for circulation.

3.16. AFFILIATE may wish to utilize technology support services from DISTRICT in accordance with the detailed description of "TECHNOLOGY SUPPORT SERVICES" attached hereto as Exhibit D. AFFILIATE shall check the appropriate box immediately below this paragraph to indicate whether AFFILIATE elects to utilize these services:

3.16.1. ☐ AFFILIATE <u>WILL</u> utilize technology support services as outlined in Exhibit D.

3.16.2. ☑ AFFILIATE will <u>NOT</u> utilize technology support services as stated in Exhibit D.

4. **Insurance.** The Parties shall maintain appropriate insurance. Certificates of Insurance shall be provided to a Party upon request.

5. **Mutual Indemnification.** To the maximum extent permitted by law, each Party (as "**Indemnitor**") agrees to indemnify, defend and hold harmless the other Party, its officers, officials, agents, employees, or volunteers (as "**Indemnitee**") from and against any and all claims, losses, liability, costs or expenses to which any Indemnitee may become subject under any theory of liability whatsoever, including reasonable attorney's fees, court costs and the costs of appellate proceedings arising out of actions taken in performance of this Agreement (hereinafter collectively referred to as "Claims") to the extent that such Claims are caused by the acts, omissions, negligence, misconduct, or other fault of the Indemnitor, its officers, officials, agents, employees, or volunteers. This indemnity includes any claim

or amount arising out of, or recovered under, the Workers' Compensation Law or arising out of the failure of such Indemnitor to conform to any federal, state, or local law, statute, ordinance, rule, regulation, or court decree.

6. **Notices.** All notices required or permitted to be given under the terms of this Agreement shall be in writing, and shall be effective upon hand delivery, deposit with a reputable overnight courier such as FedEx for overnight delivery or three (3) business days after deposit with the U.S. Mail via certified or registered mail, postage prepaid, return receipt requested as follows:

DISTRICT:
Yavapai County Free Library District
Attn: Corey Christians, Director
1971 Commerce Center Circle, Suite D
Prescott, AZ 86301

AFFILIATE:
Town of Chino Valley Public Library
1020 W. Palomino Rd. #101
Chino Valley, AZ 86323

The Parties shall each have the right from time to time to change the place notice is to be given under this paragraph by written notice thereof to the other Party.

7. **Relationship of Parties.** Nothing contained in this Agreement shall be deemed or construed as creating a joint venture, partnership, agency, employment or fiduciary relationship between the Parties. The Parties' employees shall not be considered employees of the other Party, and neither Party's personnel will, by virtue of this Agreement, be entitled or eligible, by reason of this Agreement, to participate in any benefits or privileges given or extended by the other Party to its employees. Neither Party shall be liable for any debts, accounts, obligations or other liabilities whatsoever of the other, including (without limitation) the other Party's obligation to withhold Social Security and income taxes for itself or any of its employees.

8. **Third Parties.** Nothing contained in this Agreement shall create a contractual relationship with or a cause of action in favor of a third party against DISTRICT or AFFILIATE. This Agreement is not intended to benefit any third party.

9. **Assignment.** AFFILIATE is prohibited from assigning, transferring, conveying, or otherwise disposing of its obligations under this Agreement, in whole or in part, or its power to execute such agreement to any other person, company, or corporation without the prior written consent of DISTRICT, which may be withheld at the sole discretion of DISTRICT. Any purported assignment of rights or delegation of performance in violation of this section is void.

10. **Compliance with Law.** The Parties shall comply with all applicable laws, statutes, ordinances, codes, rules and regulations, and lawful orders of public authorities in performing this Agreement, including environmental laws.

11. **Fingerprint and E-Verify.** If required, and only to the extent required, the Parties shall comply with the fingerprinting provisions in A.R.S. § 15-512(H) and the E-verify provisions in A.R.S. § 41-4401.

12. **Non-discrimination.** The Parties shall comply with Arizona State Executive Order 2009-09, and 2023-01, which mandates that all persons, regardless of race, color, religion, sex, age, national origin or

political affiliation, shall have equal access to employment opportunities, and all other applicable State and Federal employment laws, rules and regulations, including the Americans with Disabilities Act. The Parties shall take affirmative action to ensure that applicants for employment and employees are not discriminated against due to race, color, sex, pregnancy, childbirth or medical conditions related to pregnancy or childbirth, political or religious affiliation or ideas, culture, creed, social origin or condition, genetic information, sexual orientation, gender identity or expression, national origin, ancestry, age, disability, military service or veteran status, or marital status by the persons performing the contract or subcontract.

13. **Americans With Disabilities Act.** The Parties shall comply with all applicable provisions of the Americans with Disabilities Act (Public Law 101-336, 42 U.S.C. §§ 12101-12213) and all applicable federal regulations under the Act, including 28 CFR Parts 35 and 36.

14. **Legal Arizona Workers Act Compliance.** The Parties hereby warrant that they will at all times during the term of this Agreement comply with all federal immigration laws applicable to their employment of their employees and with the requirements of A.R.S. §§ 23-214 and 41-4401 (together the "State and Federal Immigration Laws"). A breach of the foregoing warranty shall be deemed a material breach, and the Parties shall have the right to terminate this Agreement for such a breach, in addition to any other applicable remedies. The Parties retain the legal right to inspect the papers of each contractor or subcontractor employee who performs work pursuant to this Agreement to verify performance of the foregoing warranty of compliance with the State and Federal Immigration Laws.

15. **Workers' Compensation.** For purposes of workers' compensation, an employee working under the jurisdiction or control of, or who works within the jurisdictional boundaries of another Party pursuant to this Agreement, will be provided workers' compensation coverage solely by their primary employer. The Parties herein shall comply with the provisions of A.R.S. § 23-1022(E) by posting the public notice required.

16. **Written Certification Pursuant to A.R.S. § 35-393.01.** If either Party engages in for-profit activity and has 10 or more employees, and if this Agreement has a value of $100,000 or more, each Party certifies to the other that it is not currently engaged in, and agrees for the duration of this Agreement to not engage in, a boycott of goods or services from Israel. This certification does not apply to a boycott prohibited by 50 U.S.C. § 4842 or a regulation issued pursuant to 50 U.S.C. § 4842.

17. **Written Certification Pursuant to A.R.S. §35-394.** The Parties certify to each other that they do not currently, and agree for the duration of the agreement will not, use: 1) the forced labor of ethnic Uyghurs in the People's Republic of China; 2) any goods or services produced by the forced labor of ethnic Uyghurs in the People's Republic of China; and 3) any contractors, subcontractors or suppliers that use the forced labor or any goods or services produced by the forced labor of ethnic Uyghurs in the People's Republic of China. If either Party becomes aware during the term of the agreement that the other Party is not in compliance with the written certification, that Party shall notify the non-compliant Party within five business days after becoming aware of the noncompliance. If the non-compliant Party does not provide the notifying Party with a written certification that the non-compliant Party has remedied the noncompliance within 180 days after said notification of noncompliance, this Agreement terminates,

except that if the Agreement termination date occurs before the end of the remedy period, the Agreement terminates on the Agreement termination date.

18. **Alternative Dispute Resolution.** In the event of any dispute under this Agreement, the Parties will immediately attempt to resolve the dispute prior to taking formal action. Pursuant to A.R.S. § 12-1518, disputes under this Agreement shall be resolved through the use of arbitration when the case or lawsuit is subject to mandatory arbitration pursuant to rules adopted under A.R.S. § 12-133.

19. **Waiver of Jury Trial/Waiver of Attorneys' Fees.** The Parties hereby waive their respective rights to trial by jury in any action or proceeding arising out of this Agreement. The Parties hereto expressly covenant and agree that in the event of litigation arising from this Agreement, neither Party shall be entitled to an award of attorneys' fees, either pursuant to this Agreement, pursuant to A.R.S. § 12-341.01(A) and (B), or pursuant to any other state or federal statute, court rule, or common law.

20. **Governing Law.** This Agreement shall in all respects be interpreted and construed in accordance with and governed by the laws of the State of Arizona. The Parties agree to bring any legal proceedings arising under this Agreement in a state or federal court of competent jurisdiction within Yavapai County, Arizona. Any changes in governing laws, rules, and regulations that do not materially affect this Agreement will apply during the term of this Agreement and will not require an amendment.

21. **Material Change in Law or Regulation.** In the event of adoption of legislation, regulations, or instructions or the initiation of an enforcement action by a governmental agency, any of which materially affects the legality of this Agreement or the relationship among the Parties hereto, either Party may propose amendments to this Agreement to bring this Agreement into conformity with such laws. If the Parties are unable to reach agreement on the renegotiation of this Agreement within thirty (30) days of the initiation of negotiations, then either Party may terminate this Agreement upon written notice to the other Party.

22. **Implied Contract Terms.** Each provision of law and any terms required by law to be in this Agreement are a part of this Agreement as if fully stated herein.

23. **Severability/Unenforceable Provisions.** In the event that any of the provisions of this Agreement are held to be unenforceable or invalid, the validity and enforceability of the remaining provisions shall not be affected and effect shall be given to the intent manifested by the provisions held enforceable and valid. If any of the provisions of this Agreement are inapplicable to a person or circumstance, the same provisions shall remain applicable to all other persons and circumstances.

24. **Waiver.** A Party's failure or neglect to enforce any term, covenant, condition, right, or duty in this Agreement does not constitute a waiver of any term, covenant condition, right, or duty, nor is it deemed to be a waiver of that Party's rights or remedies under this Agreement. A waiver or extension is only effective if it is in writing and signed by the Party granting it. No single or partial exercise of any right or remedy will preclude any other or further exercise of any right or remedy. One or more waivers by a Party of any term, covenant, condition, right, or duty in this Agreement shall not be construed as a waiver of a subsequent default or breach of the same covenant, term, condition, right, or duty.

25. **Headings and Construction of Agreement.** In construing this Agreement, all headings and titles are for the convenience of the Parties and for organizational purposes only and shall not be considered in interpreting the meaning of any provision in this Agreement or considered a part of this Agreement. Whenever required by the context, each number shall include the plural, each gender shall include all genders, and unless the context otherwise requires, the word "person" shall include corporation, firm or association. This Agreement shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

26. **Parol Evidence.** This Agreement is intended by the Parties as a final and complete expression of their agreement. No course of prior dealings between the Parties and no usage of the trade shall supplement or explain any terms used in this Agreement.

27. **Incorporated Documents and Order of Precedence.** All Exhibits identified herein, are incorporated in this Agreement by reference. In the event of conflicts or discrepancies among this Agreement and any amendments or exhibits thereto, or with the terms of the Yavapai Library Network Membership Agreement, interpretations will be based on the following priorities in the following order:

    27.1. Amendments and/or modifications to this Agreement;
    27.2. This Agreement; and
    27.3. All Exhibits identified herein and incorporated by reference; and
    27.4. The Yavapai Library Network (YLN) Membership Agreement.

28. **Entire Agreement.** This Agreement contains the entire, integrated agreement of the Parties and there are no oral agreements, understandings, or representations relied upon by the Parties. This Agreement supersedes and merges all prior negotiations, representations, or agreements, whether written or oral. Any modifications or amendments to this Agreement must be in writing and signed by all Parties.

29. **Execution in Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one and the same instrument. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon, provided such signature page is attached to any other counterpart identical thereto. Each of the Parties may sign any number of copies of this Agreement. Each signed copy shall be deemed to be an original, but all of them together shall represent one and the same agreement.

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30. Legal Agreement. This Agreement is an important, binding legal document, and each Party warrants it has had an opportunity to consult with an attorney about the terms set forth herein. By signing this Agreement, each person signing this Agreement represents and warrants that he or she is duly authorized and has the legal capacity to execute this Agreement and understands the meaning of all terms contained herein and agrees to their application and enforceability.

APPROVALS

Each person signing this Agreement represents and warrants that he or she is duly authorized and has the legal capacity to execute this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this "Affiliate Library Agreement between the Yavapai County Free Library District and the Town of Chino Valley" to be executed by their duly authorized officials in their official capacities with legal authority to do so, and have affixed their signatures to this Agreement on the date(s) written below.

DISTRICT: Yavapai County Free Library District

____ Date: __________________________
Brooks Compton, Chair of the Yavapai County
Free Library District Board of Directors

ATTEST:

____ Date: __________________________
Jayme Rush, Clerk of the Yavapai County
Free Library District Board of Directors

AFFILIATE: Town of Chino Valley

____
Signature
Tom Armstrong, Mayor
____ Date: __________________________
Printed Name and Title

EXHIBIT A: ANNUAL REPORT AND CERTIFICATION OF EXPENDITURES

Yavapai County Free Library District

FISCAL YEAR 2026-27 CONTRIBUTIONS

ANNUAL REPORT AND CERTIFICATION OF EXPENDITURES

DUE: JULY 31, 2027

1. Provide a narrative report explaining how these funds were used.
2. Attach a general ledger accounting showing where the funds were applied and expended.
3. Return the completed report to YCFLD by the above due date.

The following narrative and general ledger reports, required in the Agreement for Library Support Services Section 3.9, are submitted to support that the funds were expended accordingly.

I hereby certify that the Fiscal Year 2026-27 Contribution funds have been completely expended or the unused portion is being returned. The attached reports are a true and accurate statement of all related expenditures.

Chino Valley Public Library
____
Name of Library

____
Signature

____
Title

____
Date

EXHIBIT B: AFFILIATE CONTRIBUTION REQUEST FORM

ORGANIZATION INFORMATION

Library Name: Chino Valley Public Library		
Street Address: 1020 W Palomino Rd # 101		
City: Chino Valley	State: Arizona	Zip: 86323
Employer Identification Number: 86-0256834		
Library Director Name: Stacey Johnson		
Library Director Phone: 928-636-3163	E-mail: sjohnson@chinovaleyaz.gov	
Library Board Chair Name*: N/A		
Board Chair Phone*:	Board Chair E-mail*:	
Provide a list of your organization's Board of Directors/Trustees and titles**		
Cyndi Thomas - Community Services Director		

*If the AFFILIATE's Library has no Board of Directors or Trustees, or if that Board of Directors or Trustees are not duly authorized to make decisions for and/or make management directives for the AFFILIATE's Library, then please list the name(s) and contact information for the duly authorized officers of AFFILIATE's organization who are responsible for management and decision-making relating to AFFILIATE's Library.

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CONTRIBUTION ALLOCATION INFORMATION

Amount Allocated by Library District:	$94,044.87

OVERVIEW OF BUDGET INFORMATION

Date when upcoming budget cycle preparation begins:	February 2026
Date when upcoming budget cycle preparation ends:	May 2026
Date of final upcoming budget adoption:	June 23, 2026
Total annual organization budget for upcoming fiscal year:	$48,345,342
Total annual organization budget for current fiscal year:	$46,716,189
Total annual organization budget for previous fiscal year:	$52,457,308

ORGANIZATION'S STAFF COMPOSITION

Full-time FTE	Part-time FTE	Number of Part-Time Staff	Volunteers	Degreed Librarians
3	2.375	5	50 total 1.375 FTE	1

CERTIFICATION

The undersigned Board Chair, Library Director, or duly authorized official, does hereby certify that the information set forth in this contribution request is true and correct.

Print Name:	Stacey Johnson
Title:	Library Manager
Signature:	
Date:	

Please provide the information for your organization on separate paper(s).

1. Provide a complete list of the organization’s income sources and the amount and percentage of total income including investments.

2. If organization is not a political subdivision of the State of Arizona, provide current IRS recognized 501(c)3 status.

3. If organization is not a political subdivision of the State of Arizona, provide IRS Form 990 filings for the last tax year.

4. If organization is not a political subdivision of the State of Arizona, provide the organization’s Arizona Corporation Commission annual filing for the most current year.

5. Provide a list of all services that the library charges for and what the fee is for each service.

6. Provide a budget for how Library District funds are going to be spent.

EXHIBIT C: AFFILIATE CONTRIBUTION FORMULA

An AFFILIATE of DISTRICT is eligible to receive an annual contribution, if allocated, so long as AFFILIATE is an AFFILIATE of the YLN. The basis for determining an AFFILIATE's portion of the total allocated funds shall be based on the following factors:

1. Ten percent (10%) of the total funds available will be a base amount and apportioned to each AFFILIATE based on the ratio of the total number of Affiliate Libraries.
2. Five percent (5%) of the total funds available will based on the population of the incorporated municipality, and service area for AFFILIATE's branches in unincorporated areas, that governs the AFFILIATE divided by the combined population of the incorporated Municipalities. Official census data shall be used to determine the population for each incorporated area.
3. Fifty percent (50%) is based on total net assessed value (NAV) of the property of the incorporated municipality that is responsible for AFFILIATE divided by the total NAV of the incorporated municipalities. If an AFFILIATE has a library in unincorporated area, then DISTRICT, at DISTRICT's sole discretion, shall use the NAV that DISTRICT determines most closely matches the AFFILIATE's service area. NAV data shall be provided from publicly available data released from the assessor's office for the last full calendar year.
4. Twenty percent (20%) is based on total amount of the circulation, including first-time checkouts and renewals of physical and electronic items, and the number of items lent to AFFILIATE divided by the total number of the same for all Affiliate Libraries.
5. Ten percent (10%) of contribution is based on total number of active users of the AFFILIATE divided by the total number of the same for all Affiliate Libraries.
6. Five percent (5%) of contribution is based on total number of items held by the AFFILIATE divided by the total number of the same for all Affiliate Libraries.

Affiliate allocation amounts

Library District Affiliate	**FY26-27 Contribution**	
Contribution Amounts	**$1.44M Base Amount**	
Library Name	***Contribution***	***Percent***
Camp Verde Community Library	$77,397.79	5.37%
Chino Valley Public Library	$94,044.87	6.53%
Clarkdale Public Library	$37,144.47	2.58%
Cottonwood Public Library	$131,904.68	9.16%
Dewey-Humboldt Public Library	$33,898.12	2.35%
Jerome Public Library	$21,505.92	1.49%
Prescott Public Library	$504,971.48	35.07%
Prescott Valley Public Library	$320,917.96	22.29%
Sedona Public Library	$218,214.71	15.15%
Total	$1,440,000.00	100.00%

EXHIBIT D: TECHNOLOGY SUPPORT SERVICES

The following services are provided in response to the need for the provision of technology support services to AFFILIATE. The provided services are limited to issues and maintenance for computing and networking equipment owned and operated by AFFILIATE with DISTRICT acting as support for AFFILIATE's equipment and procurement of such equipment in accordance with AFFILIATE's needs.

1. Technology Support Services. The following services are provided by DISTRICT in response to the basic maintenance and support needs of AFFILIATE:

    a. Maintenance and Monitoring. DISTRICT shall be responsible for monitoring and managing AFFILIATE's servers as follows:

        i. Backup – includes maintaining and monitoring backups based upon the procedures and schedule already in place by DISTRICT.
        ii. Hardware errors – specifically servers procured with the assistance of DISTRICT shall include monitoring and remote support.
        iii. Event log filtering – includes monitoring vendor application issues that might arise and working with the vendor to the best of DISTRICT's ability.
        iv. Antivirus – includes routine monitoring of AFFILIATE's servers for possible infections.
        v. Routine maintenance of the servers shall include file system space monitoring, file system defragmentation and the application of critical updates.
        vi. DISTRICT shall be responsible for monitoring and managing AFFILIATE's workstations.
        vii. Antivirus – includes routine monitoring of AFFILIATE's work stations for possible infections.
        viii. Software updates – Includes providing updates for software installed by DISTRICT. Only software deemed necessary by DISTRICT can be installed on the workstations.

    b. Ordering and setup of new equipment as follows:

        i. AFFILIATE shall obtain written verification from DISTRICT that any hardware or software purchased by AFFILIATE is compatible with DISTRICT hardware and software prior to acquisition.

ii. Operating System installation as needed – this includes installing any and all licensed software DISTRICT deems necessary for the provision of services to library users and staff.
iii. Securing the device with antivirus software.
iv. Working with software vendors on implementation of new products.

1. DISTRICT shall not be held responsible for defects in any vendor's software.
2. If desired by AFFILIATE, DISTRICT shall provide a project plan with expected milestones based upon the availability of DISTRICT resources.
3. DISTRICT shall not be held responsible for delays created by AFFILIATE's hardware and software vendors.

v. Work with AFFILIATE staff on migrating to any new equipment.

vi. Provide status reports as requested.

c. Provide Disaster/Recovery services as needed on servers as follows:
   i. Restoring files that were deleted.
   ii. Restoring the server to the last full backup.
   iii. Reloading software and recovering all data available.
   iv. DISTRICT is not responsible for data lost due to the failures of AFFILIATE's backup media.

d. AFFILIATE shall be responsible for all costs, including, but not limited to, the following:
   i. All hardware costs.
   ii. All antivirus software costs.
   iii. Purchasing any and all software licenses.
   iv. All warranty costs that exceed a manufacturers' warranty.

e. Domain Name Service as follows:

   i. DISTRICT shall allow AFFILIATE to use a subdomain name of yavapailibrary.org.

ii. AFFILIATE may use its own domain name hosted on the DNS server of AFFILIATE's choice.

f. Web Site Hosting and Support as follows:

i. If desired by AFFILIATE, DISTRICT shall maintain the web site and act as a hosting site for AFFILIATE, including basic design services based on web pages already in production that were developed by DISTRICT.
ii. Future changes to the website shall happen at the discretion of DISTRICT.
iii. Changes to the website shall be coordinated with DISTRICT and AFFILIATE designee.
iv. AFFILIATE designee has all necessary authority to request changes to the website.
v. AFFILIATE website shall not exceed 2 GB of disk storage.
vi. DISTRICT shall resolve any support issues related to AFFILIATE's website.

g. Network maintenance and monitoring as follows:

i. DISTRICT shall maintain and monitor any and all network equipment that is installed by DISTRICT, including firewalls, routers, modems, or switches that are used to connect AFFILIATE to the Internet and DISTRICT network.
ii. DISTRICT shall maintain and monitor any and all filtering and authentication equipment attached to AFFILIATE's network that is installed by DISTRICT.

2. Requests for Services NOT Covered Under This Agreement. This Agreement does not cover the following requests:

a. Assistance with application usage when unsupported or nonstandard hardware or software is involved—Use of unsupported or nonstandard hardware or software often results in unexpected behavior of otherwise reliable systems.

b. Hardware procurement – DISTRICT is not responsible for procuring workstations, peripherals, and other technology-related hardware. If possible, DISTRICT may assist AFFILIATE with procurement depending on the procurement policies of Yavapai County. The cost of all hardware is the responsibility of AFFILIATE.

3. Service Request Process. AFFILIATE shall create a help desk ticket through help@yln.info or AFFILIATE may call DISTRICT help desk to communicate its needs with DISTRICT. AFFILIATE shall include a description of the request and specify its impact on business. DISTRICT shall assess the situation and respond within two (2) hours during normal business hours of 8:00 AM to 5:00 PM Monday through Friday, excluding Yavapai County holidays. DISTRICT shall do its best to respond to each situation in a timely fashion; however, it is not possible to guarantee a resolution to any individual problem in a given time period.

4. Cost of Services as follows:

   a. The level of service shall be decided on an annual basis. AFFILIATE must decide what tier of service it would like DISTRICT to provide. If AFFILIATE does not adjust the tier of service in writing prior to March 1, then the tier from the previous year shall be used.

   b. DISTRICT offers four tiers of service and support hours as follows:

      i. Tier One (12 hrs.) (remote support only): $600.
      ii. Tier Two (25 hrs.): $1,250.
      iii. Tier Three (50 hrs.): $2,500.
      iv. Tier Four (100 hrs.): $5,000.

   c. Unused hours shall roll over to the next year.

   d. Travel time shall count as support hours.

   e. If desired, AFFILIATE may choose to upgrade to the next tier within a fiscal year after all support hours have been used under the current tier.

   f. Additional hours may be purchased for $75 per hour.

5. Billing of Services

    a. Billing for services shall be invoiced on July 30. Quarterly statements may be sent with remaining balances.

    b. There shall be no funding available for services not provided herein.

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TOWN COUNCIL
AGENDA ITEM STAFF REPORT

AGENDA ITEM # 5b
MEETING DATE: 6/9/2026
CONTACT PERSON: Katie Pehl, Finance Director
ITEM TYPE: Consent Item

AGENDA ITEM TITLE:
Consideration and possible action to adopt Resolution No. 2026-1318 designating Kathryn Pehl, Finance Director, as the Chief Fiscal Officer responsible for officially submitting the Fiscal Year 2027 Annual Expenditure Limitation Report to the Arizona Auditor General.

SUMMARY:
Pursuant to Arizona Revised Statutes §41-1279.07(E), all counties, cities, towns, and community college districts in the State of Arizona are required to annually designate a Chief Fiscal Officer (CFO) to be responsible for the submission and certification of the Annual Expenditure Limitation Report (AELR). This designation must be reported to the Arizona Auditor General no later than July 31 of each year.

The AELR is a statutory requirement intended to ensure that local governments operate within constitutionally and statutorily imposed budgetary expenditure limitations. The designated CFO plays a key role in maintaining the Town's compliance with these requirements by:

- Preparing and submitting the AELR for the current fiscal year;
- Certifying the accuracy and completeness of the report;
- Ensuring adherence to applicable expenditure limitations established by law.

This certification process is essential to maintaining fiscal transparency and accountability, and it supports the Town’s ability to demonstrate compliance with state-imposed financial regulations.

PREVIOUS ACTION:
N/A

STAFF RECOMMENDATION:
Adopt Resolution No. 2026-1318, designating Kathryn Pehl, Finance Director, as the Chief Fiscal Officer responsible for officially submitting the Fiscal Year 2027 Annual Expenditure Limitation Report to the Arizona Auditor General.

FISCAL IMPACT?
There is no fiscal impact associated with this request.

ATTACHMENTS:

1.	RES 2026-1318 CFO Designation FY27

RESOLUTION NO. 2026-1318

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CHINO VALLEY, ARIZONA, DESIGNATING THE CHIEF FISCAL OFFICER FOR OFFICIALLY SUBMITTING THE FISCAL YEAR 2027 EXPENDITURE LIMITATION REPORT TO THE ARIZONA AUDITOR GENERAL.

WHEREAS, under A.R.S. § 41-1279.07(E), each county, city, town, and community college district must, by July 31 of each year, report to the Arizona Auditor General the name of the Chief Fiscal Officer designated by its governing body to submit the current year's Annual Expenditure Limitation Report (AELR) on its behalf; and

WHEREAS, the Town of Chino Valley Mayor and Council (the "Town Council") desires to designate Kathryn Pehl as the Town's Chief Fiscal Officer for the purpose of submitting the Town's AELR for fiscal year 2027; and

WHEREAS, the Town must notify the Auditor General of any changes to the individuals designated to file the AELR.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Common Council of the Town of Chino Valley, Arizona, as follows:

SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. Finance Director Kathryn Pehl is hereby designated as the Town of Chino Valley's Chief Fiscal Officer for purposes of submitting the fiscal year 2027 AELR to the Arizona Auditor General on the Town Council's behalf.

SECTION 3. If any section, subsection, sentence, clause, phrase, or portion of this resolution is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions thereof.

SECTION 4. The Mayor, the Town Manager, the Town Clerk, and the Town Attorney are hereby authorized and directed to take all steps necessary to carry out the purpose and intent of this resolution.

(SIGNATURES ON FOLLOWING PAGE)

PASSED AND ADOPTED by the Mayor and Common Council of the Town of Chino Valley, Arizona, this 9th day of June 2026.

____
Tom Armstrong, Mayor

ATTEST:

____
Erin N. Deskins, Town Clerk

APPROVED AS TO FORM:

____
Andrew J. McGuire, Town Attorney
Gust Rosenfeld, P.L.C.

I hereby certify that the above foregoing Resolution No. 2026-1318 was duly passed by the Council of the Town of Chino Valley, Arizona, at a regular meeting held on June 9, 2026, and that quorum was present thereat and that the vote thereon was ____ ayes, ____ nays, and ____ abstentions. ____ Council members were absent or excused.

____
Erin N. Deskins, Town Clerk

TOWN COUNCIL
AGENDA ITEM STAFF REPORT

AGENDA ITEM # 5c
MEETING DATE: 6/9/2026
CONTACT PERSON: Erin Deskins, Town Clerk
ITEM TYPE: Consent/Minutes

AGENDA ITEM TITLE:
Consideration and possible action to approve the May 26, 2026, regular meeting minutes.

STAFF RECOMMENDATION:
Approve the May 26, 2026, regular meeting minutes.

ATTACHMENTS:

1.	2026_05_26_CC_EX_RG_MND_wWM

MINUTES OF THE REGULAR MEETING OF THE TOWN COUNCIL OF THE TOWN OF CHINO VALLEY TUESDAY, MAY 26, 2026 5:30 PM COUNCIL CHAMBERS | 202 N. STATE ROUTE 89 | CHINO VALLEY, ARIZONA 86323

1. CALL TO ORDER; PLEDGE OF ALLEGIANCE; ROLL CALL

Vice-Mayor Granillo called the meeting to order at 6:01 p.m. and led the Pledge of Allegiance.

Present:	Mayor Tom Armstrong - remote, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz
Absent:	
Staff Present:	Town Manager Terri Denemy, Town Attorney Andrew McGuire, Officer Sean Snyder (Sgt. at Arms), Executive Analyst Jessi Sorteberg, Assistant Development Services Director Will Dingee, Senior Planner Jessica Barragan, Finance Director Katie Pehl, Town Water Consultant Mark Holmes, Town Engineer/Assistant Public Works Director Steven Sullivan, Police Chief Josh McIntire, Community Services Director Cyndi Thomas, IT Support Technician Sandra Santos, Audio Visual Technician Nicholas Harwick, Deputy Town Clerk Sara Burchill

2. INTRODUCTIONS, PRESENTATIONS, AND PROCLAMATIONS

a. Presentation and update by Katie Pehl, Finance Director, regarding the January-March 2026 quarterly financial report.

Katie Pehl, Finance Director, presented the following:

- Provided the location of the budget on the Town website for anyone wanting to review it.
- Gave a brief overview of the performance of the various Town revenues and expenditures (everything was on track), then provided a more in-depth explanation of each fund and how they were doing in relation to staff projections.
- Discussed the Town's cash balances by fund.

Council and staff discussed the following:

- Councilmember Holt inquired if the Town's income tax was down because of San Tan Valley's incorporation.
    - Staff stated the flat tax rate was changed a couple years ago and was the reason for the current dip in income tax revenue.

3. CALL TO THE PUBLIC - Individuals requesting to speak, please complete a Speaker Comment Card and return to the Clerk.

Call to the Public is an opportunity for the public to address the Council on any issue within the jurisdiction of the Council. Public comment is at the discretion of the Council and not required by law. Individuals are limited to speak for three (3) minutes, yielding of time will not be permitted. The total time for Call to the Public may be up to 30 minutes per meeting. Council action taken as a result of public comment on items not on the agenda will be limited to directing staff to study the matter, scheduling the matter for further consideration and decision at a later date, or responding to criticism. Public comment is invited and encouraged, however, personal attacks on individuals is not appropriate. Disrespectful behavior will not be tolerated; this includes loud outbursts, profanity, and disruptive discussions among our audience.

Sara Burchill, Deputy Town Clerk, stated there were no requests to speak.

4. CURRENT EVENT SUMMARIES AND REPORTS

This item is for information only. The Mayor, any Councilmember, or Town Manager may present a brief summary or report of current events. If listed below, there may also be a presentation on information requested by the Mayor and Council and questions may be answered. No action will be taken.

a. Status reports by Mayor and Council regarding current events.

Councilmember Stankewicz reported that the Chino Valley Memorial Foundation's event for Peace Officer Memorial Day was a great event and commended those parties involved in the planning and execution.

Councilmember Holt thanked the Public Works staff for all of their work on the roads.

b. Status report by Town Manager Terri Denemy regarding Town accomplishments, and current or upcoming projects.

Terri Denemy, Town Manager, presented the following:

- Asked residents to be patient as the road work is concluded over the next few weeks and further asked everyone to drive carefully and slowly on the in-progress roads to keep the dust down and keep the surfaces even.
- The Aquatic Center season will begin with a soft opening on Friday, May 29th. Swim lesson registrations are also open.
    - There are approved swimwear guidelines and patrons are asked to dress appropriately.

5. CONSENT AGENDA

All those items listed below are considered to be routine and may be enacted by one motion. Any Councilmember may request to remove an item from the Consent Agenda to be considered and discussed separately.

Councilmember McCafferty requested clarification on Consent Agenda item c.

MOVED by Councilmember Robert Switzer, seconded by Councilmember Larry Holt to approve Consent Agenda items a, b, d, e, f, and g.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

a. Consideration and possible action to approve a First Amendment to the Purchase and Sale Agreement between the Town of Chino Valley and Chino Valley Rodeo Drive, LLC extending the closing date.

b. Consideration and possible action to approve Resolution No. 2026-1310, approving the proposed statements and estimates of expenses of the Town of Chino Valley Street Lighting Improvement Districts for fiscal year 2026-2027 and setting a date for the public hearing on the proposed statements and estimates for June 23, 2026.

c. Consideration and possible action to approve Resolution No. 2026-1311, approving the proposed statement and estimate of expenses of the Del Sol Maintenance Improvement District for fiscal year 2026-2027, and setting a date for the public hearing on the proposed statement and estimate for June 23, 2026.

Terri Denemy, Town Manager, presented the following:

- Because this subdivision does not have an HOA, the Town made an agreement to take care of the landscaping through a Maintenance Improvement District which would be assessed to all the property owners.
- The Town was given an estimate of $3,000 per year for the maintenance. Bids for the maintenance to match Town Code came back much higher. Staff is discussing phasing in the larger price and asking Council to subsidize the increased amount to be fully funded by the residents within the next two years.

Katie Pehl, Finance Director, presented the following:

- Staff is requesting the Tentative Budget to be adopted for the full amount and then have further discussion at the public hearing in June. It can be reduced once approved, but it cannot be increased.

Council and staff discussed the following:

- Councilmember McCafferty asked for specifics as he believed that the Town was just doing weed control.
  - Staff discussed bringing up the presentation prepared for a future meeting.
    - Councilmember McCafferty stated that he would be fine to move forward if there are plans to discuss this at a later meeting.

- Councilmember Switzer suggested a future agenda item to discuss what Development Services would need to do to avoid a problem like this again.
    - Andrew McGuire, Town Attorney, stated it's easiest to just say "no" to such requests.
- Councilmember McCafferty clarified that this action is only approving the tentative budget.
    - Andrew McGuire, Town Attorney, stated that they are not making any decisions on particular line items, and the next meeting Council can lower the amount to whatever they decide.

MOVED by Councilmember Robert Switzer, seconded by Councilmember John McCafferty to approve Consent Agenda item 5c.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

d. Consideration and possible action to appoint members to the Building Advisory Board and the Parks & Recreation Advisory Board.

e. Consideration and possible action to approve Resolution No. 2026-1308 amending the Call of Election for the 2026 election cycle.

f. Consideration and possible action to approve the April 27, 2026, study session minutes.

g. Consideration and possible action to approve the April 28, 2026, regular meeting minutes.

6. ACTION ITEMS

The Council may vote to recess the public meeting and hold an Executive Session on any item on this agenda pursuant to A.R.S. § 38-431.03(A)(3) for the purpose of discussion or consultation for legal advice with the Town Attorney. Executive sessions are not open to the public and no action may be taken in executive session.

a. Public hearing, consideration, and possible action on Ordinance No. 2026-968 (ZC-2026-03) for a rezone of three parcels of land totaling approximately 0.94 acres from Agricultural Residential, Minimum 5 Acres (AR-5) to Commercial Light (CL) to accommodate a future retail and fuel station.

Recommended Action: (i) Hold a Public Hearing
(ii) Approve Ordinance No. 2026-968

Jessica Barragan, Senior Planner, presented the following:

- Discussed the zoning, general plan, and location data justifying the request.

- Planning & Zoning recommended approval of the proposed rezone.

Vice-Mayor Granillo opened the public hearing.

There were no requests to speak.

Vice-Mayor Granillo closed the public hearing.

Councilmember Switzer originally made a motion to approve Ordinance No. 2026-967. After realizing the error, the motion was restated as follows:

MOVED by Councilmember Robert Switzer, seconded by Councilmember Larry Holt to approve Ordinance No. 2026-968 for a rezone of three parcels of land from Agricultural Residential to Commercial Light.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

b. Public hearing, consideration, and possible action on Ordinance No. 2026-967 (ZC-2026-01) to rezone 4.97 acres from Agricultural Residential, Minimum 5 Acres (AR-5) to Single Family Residential, Minimum 1 Acre (SR-1) for a lot split.

Recommended Action: (i) Hold a Public Hearing
(ii) Approve Ordinance No. 2026-967

Will Dingee, Assistant Development Services Director, presented the following:

- Discussed the location, size, and current zoning of the property, and the General Plan justifying the request for the lot split.
- The property does experience sheet flow, which would make denser development challenging.
- Planning & Zoning recommended approval of the requested lot split.

Council and staff discussed the following:

- Councilmember Switzer clarified that if they developed the property, the sheet flow would require additional engineering.
    - Staff stated that is correct, they would have to do engineering studies to determine what would be needed. It is a local sheet flow and not a FEMA designated zone.
- Councilmember Holt inquired about water and sewer.
    - Staff stated that water is available at the property line. Because it is only being split to three parcels it is not a subdivision and they will not be required to pull in sewer.
- Councilmember Holt expressed concern of having sheet flow travel over a septic system.

- Staff stated it would need to be approved by the County environmental department.
- Vice-Mayor Granillo inquired if the County would also be involved in the sheet flow buildout.
  - Staff stated it would just be through the Town.

Vice-Mayor Granillo opened the public hearing.

There were no requests to speak.

Vice-Mayor Granillo closed the public hearing.

MOVED by Councilmember Robert Switzer, seconded by Councilmember John McCafferty to approve Ordinance No. 2026-967 to rezone 4.97 acres from Agricultural Residential to Single Family Residential for a lot split.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

c. Consideration and possible action to approve the First Amendment to the Professional Services Agreement between the Town of Chino Valley and Mark Holmes LLC allowing up to $75,000.00 for professional services in FY 2026.

Recommended Action: Approve the First Amendment to the Professional Services Agreement between the Town of Chino Valley and Mark Holmes LLC allowing up to $75,000.00 for professional services in FY 2026.

Terri Denemy, Town Manager, presented the following:

- The current agreement with Mr. Holmes allows up to $70,000 per year.
- Due to the departure of the Town's public works director, staff asked Mr. Holmes to fill in for various meetings and take on additional tasks regarding the Integrated Water Master Plan and WIFA loan applications.
- Staff may not reach the $70,000 threshold, but wanted to have that spending capacity in case they need Mr. Holmes's services through June.

MOVED by Councilmember Robert Switzer, seconded by Councilmember John McCafferty to approve the First Amendment to the Professional Services Agreement between the Town of Chino Valley and Mark Holmes, LLC, allowing up to $75,000.00 for professional services in FY 2026.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

d. Consideration and possible action to approve Resolution No. 2026-1317 authorizing the application for a Drinking Water State Revolving Fund loan from WIFA for the Bright Star Water Production Facility PFAS Remediation.

Recommended Action: Approve Resolution No. 2026-1317 authorizing the application for a Drinking Water State Revolving Fund loan from WIFA for the Bright Star Water Production Facility PFAS Remediation.

Terri Denemy, Town Manager, presented the following:

- There had been extensive conversation on this topic in study session, but staff would be reviewing the project once more.

Mark Holmes, Town Water Consultant, presented the following:

- Gave a brief history of the matter since August 2023 when the Town had its water production wells tested.
- Provided an update on the project cost estimate and the current process of securing a Construction Manager at Risk.
- Listed the future items that will be coming to Council in relation to this project.

Katie Pehl, Finance Director, presented the following:

- Discussed the WIFA loan application process and the steps that still need to be taken and the expected terms of the loan.
- Gave a breakdown of the project funding and who would be paying what portions, and how staff is budgeting to allow spending capacity should anything change.
- Provided a review on the status of the Town's water fund, which is now healthy enough to support the estimated additional debt.

Council and staff discussed the following:

- Councilmember Switzer inquired if staff had an estimate of the likelihood of the application being approved.
    - Staff stated the representatives from WIFA feel very confident that the Town will receive the 90% forgivable range due to the project being PFAS related as it is a high priority. However, it is always subject to change. Staff will be aware of any changes prior to Council's final approval of the loan documents.
    - Councilmember Switzer further inquired if staff had looked at any kind of contingency plan in the event a worse case scenario happened.
        - Staff stated they have some capacity in the water fund. Staff further explained that with the current estimate there is a cushion of approximately $2 million, and if the project went up another 30%, there would be a $500,000 gap which could be covered by the water fund balance.
- Councilmember Switzer inquired if the PFAS remediation facility would have a projected lifespan.

    - Staff stated it would be a "forever facility," but the vessels may need to be replaced at some point. But Council could expect them to be in production for 20 to 40 years.
- Councilmember McCafferty clarified that this loan was included in this year's budget.
    - Staff stated that is correct.
- Couniclmember Stankewicz inquired if the expansion of the Bright Star development would have any impact on the facility.
    - Staff stated that everything has been looked at holistically, including Bright Star and other developments.
- Councilmember Stankewicz inquired if there is something that can be done to prevent this in future developments.
    - Staff stated that they now know where the contamination areas are, such as high density septics, and will be looking at additional safety measures.
    - Staff further stated that the PFAS contamination in the Bright Star well is not necessarily from the Bright Star development.
- Councilmember Holt inquired if the proposed facility would be able to handle an additional well if needed as the Town continues to develop.
    - Staff stated that if the Town needed a new well, they would seek one that had no detection of PFAS.
- Councilmember Holt inquired about what would happen if the Chino Meadows water provider folded.
    - Staff stated that there are mechanisms at the Arizona Corporation Commission that have emergency systems to help.

MOVED by Councilmember Robert Switzer, seconded by Councilmember Sherri Phillips to approve Resolution No. 2026-1317 authorizing the application for a Drinking Water State Revolving Fund loan from WIFA for the Bright Star Water Production Facility PFAS Remeditation.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

e. Consideration and possible action to approve Resolution No. 2026-1309, approving a Tentative Budget for the fiscal year 2026-2027 and proposed expenditure limitation for the same year, in the amount of $48,345,342, and setting a public hearing date of June 23, 2026, on the tentative budget and adoption of the final budget.

Recommended Action: Approve Resolution No. 2026-1309 approving a Tentative Budget for the fiscal year 2026-2027 and proposed expenditure limitation for the same year, in the amount of $48,345,342, and setting a public hearing date of June 23, 2026, on the tentative budget and adoption of the final budget.

Katie Pehl, Finance Director, presented the following:

- Gave a breakdown of the overall Town budget for FY26/27, which is $1.6 million more than the FY25/26 budget due to the Bright Star PFAS project.
- Provided an overview of the various fund balances.
- Reviewed the Town's ongoing revenues and expenditures.
- Listed the next steps in the budget process with final adoption scheduled for June 23, 2026.
- Tonight's action would set the maximum cap for the Town's budget. It cannot be increased hereafter, but can be decreased.

Council and staff discussed the following:

- Councilmember Switzer emphasized that the Town is reducing the budget for road repairs by $1 million to be fiducially responsible. Therefore, the Town needs to concentrate on increasing revenue and take advantage of every economic opportunity they can going forward.
    - Staff stated that is correct. In the prior year, the Town allocated more of the general capital improvement fund balance toward street improvements and would like to see it go up in future years if sustainable.
- Councilmember McCafferty stated that the Town needs to continue their economic development strategic planning discussions.
    - Staff stated they have been actively engaged in those discussions since the last meeting on the matter.
- Councilmember Stankewicz stated that the budget packet is very well written and commended staff on a job well done. However, he had concerns about some things happening with the police department and inquired where the Town's police department is in relation to the surrounding areas' base salaries.
    - Staff stated they try to keep up with the other entities, but are typically the lowest and that is the reason staff recommended the market adjustment of 3%. The position freezes were added back to the budget per Council's discussions, so it is now fully funded, and staff will proceed with a soft freeze so that they can be filled if needed.
    - Councilmember Stankewicz inquired about minimum staffing in the police department and overtime usage.
        - Staff stated that the minimum is three officers (which typically only happens because of vacations or training), but they typically have four to five officers per shift. Overtime has been well managed this year by just moving people around and the officers have been flexible to accommodate that.
- Councilmember Holt asked for clarification on the position freezes.
    - Staff stated that two positions are hard freezes (Development Services and Streets Maintenance positions) and the police department positions are on a soft freeze.
    - Councilmember Holt inquired if the hard freeze positions would have to come back to Council for funding.
        - Staff stated that is correct because the funds would either have to come from contingency or other departments.

MOVED by Councilmember Robert Switzer, seconded by Councilmember Sherri Phillips to approve Resolution No. 2026-1309, approving a Tentative Budget for the fiscal year 2026-

2027 and proposed expenditure limitation for the same year, in the amount of $48,345,342, and setting a public hearing date of June 23, 2026, on the tentative budget and adoption of the final budget.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

f. Consideration and possible action to approve Resolution 2026-1307, authorizing the submission of a grant application to, and acceptance of grant funds from, the AZ SMART Fund for a Grant for Match Pursuant to Title 28, Chapter 2, Article 2, Arizona Revised Statutes.

Recommended Action: Approve Resolution 2026-1307, authorizing the submission of a grant application to, and acceptance of grant funds from, the AZ SMART Fund for a Grant for Match Pursuant to Title 28, Chapter 2, Article 2, Arizona Revised Statutes.

Jessi Sorteberg, Executive Analyst, presented the following:

- This is a state-run program that supplements match funds required by a federal grant program and must be applied to in conjunction with the federal program. Last week an application was submitted to the Safe Streets and Roads for All. Further discussed the project cost and funding.
- The goal of the grant is to conduct a speed study, intersection analysis, and signage inventory to reduce serious injuries and deaths on the roadways.
- Discussed the program funding available and how the Town qualifies.

Council and staff discussed the following:

- Councilmember Switzer inquired if the $70,000 match was in the budget.
  - Staff stated this application is meant to cover the $70,000 match if the Town was awarded the federal grant. If this particular grant was not awarded, then staff would have to look at potentially having to pay that $70,000 match.

MOVED by Councilmember Robert Switzer, seconded by Councilmember John McCafferty to approve Resolution No. 2026-1307, authorizing the submission of a grant application to, and acceptance of grant funds from, the AZ SMART Fund for a Grant for Match Pursuant to Title 28, Chapter 2, Article 2, Arizona Revised Statutes.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

7. ADJOURNMENT

MOVED by Councilmember Sherri Phillips, seconded by Councilmember John McCafferty to adjourn the meeting at 7:12 p.m.

AYE: Mayor Tom Armstrong, Vice-Mayor Eric Granillo, Councilmember John McCafferty, Councilmember Sherri Phillips, Councilmember Larry Holt, Councilmember Robert Switzer, Councilmember John Stankewicz

NAY: None

7 - 0 Passed - Unanimously

____
Tom Armstrong, Mayor

ATTEST:

____
Erin N. Deskins, Town Clerk

CERTIFICATION:

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Regular Meeting of the Town Council of the Town of Chino Valley, Arizona held on the 26th day of May, 2026. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this ______ day of ___________, 2026.

____
Erin N. Deskins, Town Clerk

TOWN COUNCIL
AGENDA ITEM STAFF REPORT

AGENDA ITEM # 6a
MEETING DATE: 6/9/2026
CONTACT PERSON: Steven Sullivan, Assistant Town Engineer, Katie Pehl, Finance Director
ITEM TYPE: Action Item

AGENDA ITEM TITLE:
Consideration and possible action to approve Resolution No. 2026-1320 authorizing the loan acceptance of a $10 Million Clean Water State Revolving Fund loan from WIFA for the Water Reclamation Facility Improvements and the execution and delivery of the loan agreement with WIFA.

SUMMARY:
The Chino Valley Water Reclamation Facility (WRF), designed for 0.5 MGD municipal wastewater treatment, faces operational challenges requiring upgrades. In the spring of 2024, the Town contracted with PACE to engineer the WRF Improvements Project. Current design improvements address biological and hydraulic loading issues, including the addition of equalization (EQ) basins, sludge handling systems, odor control, and a PFAS pilot study. To align with the Town's budgetary constraints and the corresponding WIFA loans needed, PACE engineered the project into two stand-alone phases, each with a $5 million budget cap, to ensure funding compliance and efficient implementation.

Phase 1 ($4.2M) focuses on EQ basins, sludge pumps and tanks, and site electrical improvements.

- EQ Basins and Lift Station: Mitigates flow and loading issues, stabilizes influent flow, and reduces strain on membrane bioreactor (MBR) systems.
- Sludge Storage Tanks and Pumps: Provides operational flexibility to prevent system overloading during peak sludge production periods.

Phase 2 ($3.8M) includes maintenance infrastructure, redundant de-watering systems, UV disinfection upgrades, and a PFAS study.

- Maintenance Bed: Enhances handling of collected materials and operational safety.
- De-watering & Disinfection Systems: Adds redundancy and replaces aging UV units for enhanced treatment efficiency.
- PFAS Pilot Study: Evaluates feasibility of PFAS remediation in treated effluent.

Key activities for both phases include grant applications, design finalization, and hiring a Construction Manager at Risk (CMAR). Effective coordination and funding will be critical to project success, and this loan acceptance will allow the Town to finalize the loan from WIFA for both phases of the project, with a not-to-exceed amount of $10,000,000. This includes the construction of both phases, the cost for a construction manager, and the PACE engineering contract.

PREVIOUS ACTION:
On November 18, 2025, Council approved Resolution No. 2025-1295 authorizing application for a loan from WIFA for the improvements of the Water Reclamation Facility through the Clean Water State Revolving Fund.

STAFF RECOMMENDATION:
Approve Resolution No. 2026-1320 authorizing the loan acceptance of a $10 Million Clean Water State Revolving Fund loan from WIFA for the Water Reclamation Facility Improvements and the execution and delivery of the loan agreement with WIFA.

FISCAL IMPACT?
The proposed Resolution authorizes the Town to enter into a loan agreement with WIFA. The loan amount will not exceed $10,000,000, including approximately $1,260,000 in forgivable principal. The loan term will not exceed 20 years with an interest rate not to exceed 4.40% annually. Repayment will be secured solely through pledged system revenues, excise tax revenues, and state shared revenues, and will not constitute a general obligation or property tax-supported debt of the Town.

The anticipated loan closing date is July 9, 2026, and sufficient budget capacity for the project and related debt obligations has been incorporated into the Town's FY 2026–27 budget.

ATTACHMENTS:

1.	RES - Resolution 2026-1320 - Chino Valley WIFA WRF Loan Agreement Resolution (003)(5.7.26)(8005941.3)
2.	DRAFT Loan910226-27 Town of Chino Valley (v3)

RESOLUTION NO. 2026-1320

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CHINO VALLEY, ARIZONA, APPROVING THE FORM AND AUTHORIZING THE EXECUTION AND DELIVERY OF A LOAN AGREEMENT WITH THE WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA FOR A LOAN FROM ITS CLEAN WATER STATE REVOLVING FUND PROGRAM; DELEGATING THE DETERMINATION OF CERTAIN MATTERS RELATING THERETO TO THE MANAGER AND THE FINANCE DIRECTOR OF THE TOWN; AND AUTHORIZING AND RATIFYING THE TAKING OF ALL OTHER ACTIONS NECESSARY TO CONSUMMATE THE TRANSACTIONS CONTEMPLATED BY SUCH LOAN AGREEMENT AND THIS RESOLUTION.

WHEREAS, the Town of Chino Valley, Arizona (the “Town”) has applied to the Water Infrastructure Finance Authority of Arizona (the “Authority”) for a loan (the “Loan”) from the Authority’s Clean Water State Revolving Fund Program (the “Program”) to provide funds for the Town to design and engineer wastewater capital improvement projects (collectively, the “Project”); and

WHEREAS, the terms and conditions under which the Loan will be made and the obligations of the Town with respect to the Loan will be set forth in a loan agreement to be executed and delivered by the Town and the Authority (the “Loan Agreement”); and

WHEREAS, pursuant to A.R.S. § 9-571, the Town may obligate the revenues generated by its domestic water and wastewater systems to repay a loan from the Authority; and

WHEREAS, the Loan and the loan repayments payable by the Town pursuant to the Loan Agreement (the “Loan Repayments”) will be secured exclusively by a pledge of the Source of Repayment, which includes Net System Revenues, Excise Tax Revenues, and State Shared Revenues (all as defined in the Loan Agreement); and

WHEREAS, on November 18, 2025, the Mayor and Common Council of the Town of Chino Valley (the “Town Council”) adopted Resolution No. 2025-1295, authorizing the Town Manager to apply for a Clean Water State Revolving Fund loan from the Authority for the Project; and

WHEREAS, on February 19, 2026, the Board of Directors of the Authority approved Loan Resolution 2026-46, authorizing the Authority and the Town to enter into a Loan Agreement in the amount not to exceed $10,000,000 for the Project with $1,260,000 in forgivable principal; and

WHEREAS, the Town Council has determined it is in the Town’s best interest to enter into and to perform the Loan Agreement, whereby the Town will borrow from the Authority no more than $10,000,000, with $1,260,000 in forgivable principal; and

WHEREAS, the Loan shall be repaid on or before 20 years from the date of execution and delivery of the Loan Agreement and shall bear interest at a rate not to exceed 4.40% per annum; and

WHEREAS, the proposed form of the Loan Agreement has been placed on file with the Town Clerk and presented at the meeting at which this Resolution was adopted;

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Common Council of the Town of Chino Valley, Arizona, as follows:

SECTION 1. **<u>Incorporation of Recitals</u>**. The recitals above are incorporated as if fully set forth herein.

SECTION 2. **<u>Approval of Loan Agreement</u>**. The Town Council hereby approves the Loan Agreement in substantially the form of such document presented at the meeting at which this Resolution was adopted, with such insertions, omissions, and changes, not inconsistent with the Town's application to the Authority (except that the Source of Repayment indicated in Town Council Resolution No. 2025-1295 has been expanded to include Excise Tax Revenues and State Shared Revenues in addition to Net System Revenues) or the requirements of the federal government or Authority, as shall be approved by the Manager and/or Finance Director of the Town, the execution of such document being conclusive evidence of such approval. The Mayor, any other member of the Town Council, the Manager, the Finance Director, the Public Works Director, the Clerk of the Town, and the Town Attorney (collectively, the "Authorized Representatives") are hereby authorized and directed to execute or attest, as applicable, and deliver such Loan Agreement to secure a loan from the Authority in an amount not to exceed \$10,000,000 with \$1,260,000 in forgivable principal, at the terms and rates as set forth in this Resolution, payable from the Source of Repayment.

SECTION 3. **<u>Repayment; Not a General Obligation of the Town</u>**. The obligation of the Town to pay the Loan Repayments and make other payments provided for in the Loan Agreement is limited to payment from the Source of Repayment, which is pledged therefor pursuant to the Loan Agreement, but shall not constitute or give rise to a general obligation of the Town or any claim against its *ad valorem* property taxing powers, or constitute an indebtedness within the meaning of any statutory or constitutional debt limitation applicable to the Town.

SECTION 4. **<u>Further Actions</u>**. The Authorized Representatives and all other necessary Town officials are hereby authorized and directed to execute all other documents and take all steps necessary for the consummation of the transaction contemplated in, and to carry out the purpose and intent of, this Resolution and the Loan Agreement, including, but not limited to, executing the following if the Authority issues bonds and pledges the Loan: (i) a certificate that the information concerning the Town in the official statement for any Authority bonds is correct in all material respects and is an accurate summary of the information which it purports to summarize, and that nothing has come to the Authorized Representative's attention that would lead the Authorized Representative to believe that the information in the official statement relating to the Town contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (ii) a continuing disclosure undertaking of the Town meeting the requirements of the U.S. Securities and Exchange Commission Rule 15c2-12 (the "Disclosure Rule") and a statement as to whether the Town has failed to provide the information required under the Disclosure Rule; and (iii) a certificate regarding the Town's reasonable expectations as to the Town's use of the proceeds of the Loan and such other matters to ensure that the Authority bonds are and will remain Tax-Exempt Obligations as defined in Exhibit H of the Loan Agreement.

SECTION 5. **<u>Severability</u>**. If any section, paragraph, subdivision, sentence, clause, or phrase of this Resolution is for any reason held to be illegal or unenforceable, such decision will not affect the validity of the remaining portions of this Resolution. The Town Council hereby declares that it would have adopted this Resolution and each and every section, paragraph, subdivision, sentence, clause, or phrase hereof and authorized the execution and delivery of the

Loan Agreement pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses, or phrases of this Resolution may be held illegal, invalid, or unenforceable. All ordinances, resolutions, or parts thereof, inconsistent herewith, are construed as reviving any ordinance or resolution or any part thereof.

SECTION 6. **Ratification**. All actions of Town officers and agents, including the Town Council, that conform to the purposes and intent of this Resolution and which further the execution and delivery of the Loan Agreement as contemplated by this Resolution, whether heretofore or hereafter taken, are hereby ratified, confirmed, and approved.

SECTION 7. **Binding Obligation**. All acts and conditions necessary to be performed by the Town or to have been met precedent to and in the execution and delivery of the Loan Agreement to make it a legal, valid, and binding obligation of the Town will at the time of delivery of the Loan Agreement have been performed and have been met, in regular and due form as required by law, and no statutory or constitutional limitation of indebtedness or taxation will have been exceeded in the execution and delivery of the Loan Agreement.

SECTION 8. **Conformance with Law**. All formal actions of the Town Council concerning and relating to the passage of this Resolution were taken in an open meeting, and all deliberations of the Town Council and of any committees that resulted in those formal actions were in meetings open to the public, in compliance with all legal requirements.

SECTION 9. **Resolution Irrepealable**. After the execution and delivery of the Loan Agreement and upon receipt of the Loan from the Authority, this Resolution shall be and remain irrepealable until the Loan, the Loan Agreement, and the interest thereon have been fully paid, canceled, and discharged.

(SIGNATURES FOLLOW)

PASSED AND ADOPTED by the Mayor and Common Council of the Town of Chino Valley, Arizona, this 9th day of June 2026.

____
Tom Armstrong, Mayor

ATTEST:

____
Erin N. Deskins, Town Clerk

APPROVED AS TO FORM:

____
Andrew J. McGuire, Town Attorney
Gust Rosenfeld P.L.C.

I hereby certify that the above and foregoing Resolution No. 2026-1320 was duly passed and adopted by the Council of the Town of Chino Valley, Arizona, at a regular meeting held on June 9, 2026, and that a quorum was present thereat and that the vote thereon was ___ ayes, ___ nays, and ___ abstentions. ___ Council members were absent or excused.

____
Erin N. Deskins, Town Clerk

Town of Chino Valley and

Water Infrastructure Finance Authority of Arizona

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Town of Chino Valley's Borrowing Resolution

TO BE PROVIDED BY BORROWER PRIOR TO CREATION OF LOAN CLOSING DOCUMENTS

Loan Resolution 2026-046 – Town of Chino Valley

Water Infrastructure Finance Authority of Arizona

Section 1: Resolution

WHEREAS, the Water Infrastructure Finance Authority of Arizona (the "*Authority*") has received from the Town of Chino Valley (the *"Local Borrower"*) a request for a loan (the "*Loan*"); and

WHEREAS, the Authority has determined that the Local Borrower has met the requirements of Arizona Revised Statutes §49-1201 et seq. (the "*Act*") and the rules promulgated thereunder (the *"Rules"*); and

WHEREAS, the terms and conditions under which a Loan will be made and the obligations of the Local Borrower will be set forth in a loan agreement or bond purchase agreement (the "*Loan Agreement*") to be executed by the Local Borrower and the Authority.

NOW, THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE AUTHORITY AS FOLLOWS:

The Director of the Authority is hereby authorized and directed to execute a Loan Agreement with the Local Borrower to evidence a Loan in accordance with the Act, the Rules, the Local Borrower's applications to the Authority, and the Project Summary detailed in Section 2 of this Loan Resolution.

The Director and other Authority officials, as appropriate, are authorized and directed to sign any document and take such actions as necessary and appropriate to consummate the transactions contemplated by this Resolution and the Loan Agreement and to ensure that the Local Borrower has completed all requirements of the Authority as detailed in Section 3, Section 4, and Section 5 of this Loan Resolution.

This Resolution shall take effect immediately and shall terminate one year from the date of Board Action.

PASSED AND ADOPTED by the Board of Directors for the Water Infrastructure Finance authority of Arizona on February 19, 2026.

The Chairman of the Board of Directors certifies that the above is a true and correct copy of the resolution that was duly adopted at a public meeting of the Water Infrastructure Finance Authority on the date referenced above.

By: Jonathan Lines (Feb 19, 2026 12:28:08 MST)

Chairman

Section 2: Project Summary

2.1 Project Number(s)

CW 018-2026

2.2 Project Priority Data

PPL Rank*	Funding Cycle	Population Served	FA Index*
2	2026	5,418	80%

*Per the PPL to be presented for approval at the February 18, 2026 WIFA Board meeting.

2.3 Project Description(s)

The project will construct two concrete aerated equalization basins and a concrete pump station with VFD-controlled submersible pumps to buffer peak flows and meter influent to the existing membrane bioreactors. A new bar screen will provide coarse screening upstream of the basins protecting all downstream equipment from ragging issues. Two HDPE sludge storage tanks with aeration and rotary lobe feed pumps will improve solids handling and processing time.

2.4 Previous Board or Committee Actions

No previous Board action for this project.

2.5 Federal Programs Committee Review Date

Febuary 10, 2026

Section 3: Financial Assistance Terms & Conditions (Section 7.1 of Due Diligence)

Financial Assistance Amount: $10,000,000 with $1,260,000 in forgivable principal

Primary Repayment Source: Wastewater System Revenue

Secondary Repayment Source: Excise Tax

Loan Term: 20 years

Frequency of Repayment: Semi-Annual

Loan Structure: Standard Governmental-Level 1; Disadvantaged Community

Debt Service Reserve Fund Requirements: None

Repair and Replacement Fund Requirements: None

Requirements Prior to Loan Execution:

Require Legal Opinion: Yes

Other: None

Requirements Prior to Construction: None

Requirement During Construction: None

Requirements Prior to Final Disbursements: None

Loan Category: Qualified, Not Pledged

Policy Exceptions: None

Section 4: Technical Terms & Conditions (Section 7.2 of Due Diligence)

Observation Schedule B:

Observation 1: Upon borrower notification of construction commencement

Additional Observations: at least one site observation within each 12 month period

Final Observation: 80% construction budget disbursement

Withholding Percentage:

50% (released after deliverables received)

Requirements Prior to Loan Execution: None

Requirements Prior to Construction:

Submittal of Construction Bids: Yes

Project Publicity/Signage:

The Local Borrower shall erect a construction sign displaying information on the Project and the funding sources. The Authority shall provide specifications for such construction signs.

Other: None

Requirements During Construction:

Prior Review of Changes in Project Scope: Yes

Other: None

Requirements Prior to Releasing Withholdings:

50% Withholding of Construction Funds

Submission of Fiscal Sustainability Plan Certification: Yes

Submission of Fiscal Sustainability Plan: No

10% Withholding

Require Plan of Operation: Yes

Require Final Approval: Yes

Other: None

Policy Exceptions: None

Section 5: Additional Notice & Reporting Requirements (Section 7.3 of Due Diligence)

Other: Wage rate reporting requirements; Use of American Iron and Steel requirements; Build America, Buy America Act requirements

Loan Agreement

Water Infrastructure Finance Authority of Arizona
(the "Authority")

and

Town of Chino Valley
(the "Local Borrower")

Evidencing a Loan from the
Authority to the Local Borrower

Dated as of **TBD**

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Loan Agreement

This Loan Agreement (this "*Loan Agreement*") is made and entered into as of **TBD** by and between the Water Infrastructure Finance Authority of Arizona (the "*Authority*"), and the Town of Chino Valley (the "*Local Borrower*"), a political subdivision of the State of Arizona.

This Loan Agreement includes the attached Exhibits and the attached Standard Terms and Conditions. Any capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Exhibits and the Standard Terms and Conditions.

The Authority and the Local Borrower agree as follows:

Article 1 Description of the Loan

Section 1.1 Name and Address of Local Borrower.

Town of Chino Valley
Attention: Katie Pehl, Finance Director
202 N.State Route 89,
Chino Valley, Arizona 86323
Telephone: (928) 636-3121

Section 1.2 Authorized Officer(s) of Local Borrower.

Town of Chino Valley
Attention: Terri Denemy, Town Manager
202 N. State Route 89,
Chino Valley, Arizona 86323
Telephone: (928) 636-3110

Section 1.3 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Local Borrower and the Authorized Officer of the Local Borrower at the addresses specified in Sections 1.1 and 1.2 and to the Authority at the following address:

Director
Water Infrastructure Finance Authority of Arizona
3300 N. Central Ave., Suite 1050
Phoenix, Arizona 85012
Telephone: (602) 364-1310
Fax: (602) 364-1327

Any of the parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent, by notice in writing given to the others.

Section 1.4 Loan Information. The terms of the Loan include the terms set forth in the Exhibits, which are part of this Loan Agreement:

Exhibit A	Financial Assistance Terms and Conditions; Borrower Payment Instructions; and Loan Repayment Schedule
Exhibit B	Technical Assistance Terms and Conditions
Exhibit C	Reporting Requirements
Exhibit D	Source of Repayment
Exhibit E	Debt Service Reserve Requirements
Exhibit F	Replacement Reserve Requirements
Exhibit G	Opinion of Local Borrower Counsel
Exhibit H	Tax Compliance Certificate of Local Borrower

Prior to Loan Closing, the Local Borrower must deliver to the Authority the Opinion of Local Borrower Counsel in the form of Exhibit G and the Tax Compliance Certificate of Local Borrower in the form of Exhibit H, signed and dated the date of Loan Closing.

Article 2 Description Of The Project

Section 2.1 Description of Project. The Project is described in Project Summary attached to the Loan Resolution of the Authority, and in Exhibit B of this Loan Agreement.

Section 2.2 Description of System. The term "System" means and includes all of the properties and facilities of the complete Water and* Sewer plant and system of the Local Borrower, whether lying within or without the boundaries of the Local Borrower, as now existing and as they may hereafter be improved or extended, all improvements, additions and extensions thereto or replacements thereof hereafter constructed or acquired by purchase, contract or otherwise and all contracts, rights, agreements, leases and franchises of every nature owned by the Local Borrower and used or useful or held for use in the operation of said plant and system or any part or portion thereof.

Article 3 Loan to Local Borrower; Amounts Payable

Section 3.1 The Loan. The Authority shall loan and disburse to the Local Borrower in accordance with this Article 3 an amount listed in Exhibit A (the "Loan"), and the Local Borrower shall borrow and accept from the Authority, the Loan in the principal amount determined pursuant to this Article 3; provided, however, that (i) the Authority shall be under no obligation to disburse any amount of the Loan if an Event of Default has occurred and is continuing under this Loan Agreement, and (ii) the amount to be disbursed shall be lawfully available for disbursement. The Local Borrower shall use the proceeds of the Loan strictly in accordance with the requirements of this Loan Agreement.

*All of the Pre-2015 WIFA Agreements (as such term is defined in Exhibit D, Source of Repayment: System Revenues and Excise Taxes) were amended to add the words "Water and" to the meaning of "System."

<u>Section 3.2 Disbursements of Loan Proceeds.</u> The Authority may disburse funds by check, by electronic means or by means of magnetic tape or other transfer medium. Except as hereinafter provided, disbursements shall be made only when (i) the request for disbursements is in substantially the form provided by the Authority and is accompanied by the necessary certifications and documentation and (ii) an Authorized Officer of the Authority has determined that such disbursement is proper. An Authorized Officer of the Authority shall approve disbursements directly to the persons or entities entitled to payment or to the Local Borrower in the case of reimbursement for costs of services already paid, and shall provide the Local Borrower with a copy of the approval and the date approved. Disbursements may be made only for Eligible Project Costs.

<u>Section 3.3 Amounts Payable.</u> The Local Borrower shall pay to the Authority the amounts shown in <u>Exhibit A</u> on or before the dates shown in <u>Exhibit A</u>, as the same may be adjusted as provided in the Standard Terms and Conditions, to reflect any revisions to the principal repayment schedule of the Loan. Such payments shall be made by electronic funds transfer or by direct debit to the Authority.

<u>Section 3.4 Tax Covenants.</u>

(a) <u>General</u>. The Local Borrower acknowledges that, in connection with its state revolving fund programs, the Authority issues its bonds ("Authority Bonds") from time to time to finance loans and the Authority also pledges certain loans to secure and to serve as the source of payment for the Authority Bonds. As a result, and under the provisions of federal tax law applicable to the Authority Bonds, it is in the Authority's interest for the Loan to qualify and be an obligation that bears interest that is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code. Therefore, the Local Borrower represents and covenants as follows with respect to the Loan and the Authority Bonds. The Local Borrower covenants that it will not take any action, or fail to take any action, if any such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Loan or the Authority Bonds under Section 103(a) of the Internal Revenue Code or cause the interest on the Loan or the Authority Bonds to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code, and in the event of such action or omission, it will, promptly upon having such brought to its attention, take such reasonable actions based upon a bond counsel opinion as may rescind or otherwise negate such action or omission. The Local Borrower will not directly or indirectly use or permit the use of any proceeds of the Loan or any other funds of the Local Borrower or take or omit to take any action that would cause the Loan or the Authority Bonds to be or become "arbitrage bonds" within the meaning of Section 148(a) of the Internal Revenue Code or to fail to meet any other applicable requirement of Sections 103, 141, 148, 149 and 150 of the Internal Revenue Code or cause the interest on the Loan or the Authority Bonds to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code. To that end, the Local Borrower will comply with all applicable requirements of Sections 103, 141, 148, 149 and 150 of the Internal Revenue Code to the extent applicable to the Loan.

(b) Modification Based on Bond Counsel Opinion. Notwithstanding any provision of this Section, if the Local Borrower provides to the Authority a bond counsel opinion to the effect that any action required under this Section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of interest on the Loan or the Authority Bonds pursuant to Section 103(a) of the Internal Revenue Code, the provisions of this Section and the covenants in this Section shall be deemed to be modified to that extent.

(c) Bond Counsel Opinion. For purposes of this Section, "bond counsel opinion" means an opinion letter of a firm of attorneys of national reputation experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds, and who is acceptable to the Authority.

IN WITNESS WHEREOF, the Authority and the Local Borrower have caused this Loan Agreement to be executed and delivered as of the date of execution hereof.

Water Infrastructure Finance Authority of Arizona

By: ____

Chelsea McGuire, Director

Town Of Chino Valley

By:____

Terri Denemy, Town Manager

LOAN AGREEMENT ADDENDUM

Wage Rate and Forgivable Principal Requirements for Compliance with P.L. 111-88

Water Infrastructure Finance Authority of Arizona

This document (this "Wage Rate and Forgivable Principal Addendum") sets forth additional requirements applicable to state revolving fund Loans made by the Water Infrastructure Finance Authority of Arizona ("WIFA") that are subject to the requirements of Public Law 111-88, "Making appropriations for the Department of the Interior, environment, and related agencies for the fiscal year ending September 30, 2010, and for other purposes," enacted October 30, 2009 ("P.L. 111-88"). The provisions in this Wage Rate and Forgivable Principal Addendum are a part of the Loan Agreement. Capitalized terms not otherwise defined herein shall have the meanings given them in the Loan Agreement.

The parties acknowledge and agree that funds disbursed by WIFA to the Local Borrower will include funds made available to WIFA by the federal government under P.L. 111-88, and that the requirements of P.L. 111-88 include those set forth in this Wage Rate and Forgivable Principal Addendum. The Local Borrower agrees to comply with all of those requirements and agrees that failure to do so is a breach of the provisions of the Loan Agreement which may result in a default under the Loan Agreement, termination of WIFA's obligation to make disbursements on the Loan and the Local Borrower being required to repay all amounts that have been disbursed by WIFA on the Loan, together with interest and fees as provided in the Loan Agreement (including interest and fees at rates adjusted from those originally in effect as described herein).

Additional Requirement for Subrecipients that are not Governmental Entities:

Obtaining Wage Determinations - Under this Wage Rate and Forgivable Principal Addendum, the non-governmental borrower must submit its proposed Davis Bacon wage determinations to WIFA for approval prior to including the wage determination in any solicitation, contract task orders, work assignments, or similar instruments to existing contractors. **THIS PARAGRAPH DOES NOT APPLY TO GOVERNMENTAL ENTITIES.**

Section 1. P.L. 111-88 Compliance - Forgivable Principal Portion.

(a) Section 1 of Exhibit A to the Loan Agreement specifies the Total Financial Assistance Amount, the amount, if any, designated as the Forgivable Principal Portion, the Intended Repayment Amount, and the required amount of reserves to be established based upon the Intended Repayment Amount. Section 2 of Exhibit A to the Loan Agreement specifics a schedule of interest and principal payments based on the Intended Repayment Amount. If the Local Borrower fails to comply with the requirements of P.L. 111-88, including those set forth in this Wage Rate and Forgivable Principal Addendum:

(i) WIFA will provide a revised Exhibit A for the Loan Agreement to amortize the entire Total Financial Assistance Amount with the Forgivable Principal Portion set to $1,260,000.00, adjusted, as necessary, to incorporate, previous principal payments.

(ii) The Local Borrower will repay the Total Financial Assistance Amount.

Section 2. **P.L. 111-88 Compliance - Wage Rate Requirements.**

This language must be included in all Davis Bacon covered construction contracts and subcontracts. (29 CFR Part 5.5)

(a) The Local Borrower shall insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a treatment work under the CWSRF or a construction project under the DWSRF, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in Sec. 5.1, or the FFY 2010 appropriation, the following clauses:

(1) **Minimum wages**. (i) All laborers and mechanics employed or working upon the site of the work will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics. Contributions made or costs reasonably anticipated for bona fide fringe benefits under section 1(b)(2) of the Davis-Bacon Act on behalf of laborers or mechanics are considered wages paid to such laborers or mechanics, subject to the provisions of paragraph (a)(1)(iv) of this section; also, regular contributions made or costs incurred for more than a weekly period (but not less often than quarterly) under plans, funds, or programs which cover the particular weekly period, are deemed to be constructively made or incurred during such weekly period. Such laborers and mechanics shall be paid the appropriate wage rate and fringe benefits on the wage determination for the classification of work actually performed, without regard to skill, except as provided in Sec. 5.5(a)(4). Laborers or mechanics performing work in more than one classification may be compensated at the rate specified for each classification for the time actually worked therein: Provided, that the employer's payroll records accurately set forth the time spent in each classification in which work is performed. The wage determination (including any additional classification and wage rates conformed under paragraph (a)(1)(ii) of this section) and the Davis-Bacon poster (WH-1321) shall be posted at all times by the contractor and its subcontractors at the site of the work in a prominent and accessible place where it can be easily seen by the workers. Local Borrowers may obtain wage determinations from the U. S. Department of Labor's web site, www.wdol.gov.

(ii)(A) The Local Borrower, on behalf of EPA, shall require that any class of laborers or mechanics, including helpers, which is not listed in the wage determination and which is to be employed under the contract shall be classified in conformance with the wage determination. The WIFA award official shall approve an additional classification and wage rate and fringe benefits therefore only when the following criteria have been met:

(1) The work to be performed by the classification requested is not performed by a classification in the wage determination; and

(2) The classification is utilized in the area by the construction industry; and
(3) The proposed wage rate, including any bona fide fringe benefits, bears a reasonable relationship to the wage rates contained in the wage determination.
(B) If the contractor and the laborers and mechanics to be employed in the classification (if known), or their representatives, and the Local Borrower agree on the classification and wage rate (including the amount designated for fringe benefits where appropriate), a report of the action taken shall be sent by the Local Borrower to the WIFA award official. The WIFA award official will transmit the report, to the Administrator of the Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, Washington, DC 20210 and to the EPA Davis Bacon Regional Coordinator concurrently. The Administrator, or an authorized representative, will approve, modify, or disapprove every additional classification action within 30 days of receipt and so advise the WIFA award official or will notify the WIFA award official within the 30-day period that additional time is necessary.
(C) In the event the contractor, the laborers or mechanics to be employed in the classification or their representatives, and the Local Borrower do not agree on the proposed classification and wage rate (including the amount designated for fringe benefits, where appropriate), the award official shall refer the questions, including the views of all interested parties and the recommendation of the WIFA award official, to the Administrator for determination. The Administrator, or an authorized representative, will issue a determination within 30 days of receipt and so advise the contracting officer or will notify the contracting officer within the 30-day period that additional time is necessary.
(D) The wage rate (including fringe benefits where appropriate) determined pursuant to paragraphs (a)(1)(ii) (B) or (C) of this section, shall be paid to all workers performing work in the classification under this contract from the first day on which work is performed in the classification.
(iii) Whenever the minimum wage rate prescribed in the contract for a class of laborers or mechanics includes a fringe benefit which is not expressed as an hourly rate, the contractor shall either pay the benefit as stated in the wage determination or shall pay another bona fide fringe benefit or an hourly cash equivalent thereof.
(iv) If the contractor does not make payments to a trustee or other third person, the contractor may consider as part of the wages of any laborer or mechanic the amount of any costs reasonably anticipated in providing bona fide fringe benefits under a plan or program, Provided, That the Secretary of Labor has found, upon the written request of the contractor, that the applicable standards of the Davis-Bacon Act have been met. The Secretary of Labor may require the contractor to set aside in a separate account assets for the meeting of obligations under the plan or program.

(2) **Withholding**. The Local Borrower shall upon its own action or upon written request of WIFA, EPA award official or an authorized representative of the Department of Labor withhold or cause to be withheld from the contractor under this contract or any other Federal contract with the same prime contractor, or any other federally-assisted contract subject to Davis-Bacon prevailing wage requirements, which is held by the same prime contractor, so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics, including apprentices, trainees, and helpers, employed by the contractor or any subcontractor the full amount of wages required by the contract. In the event of failure to pay any laborer or mechanic, including any apprentice, trainee, or helper, employed or working on the site of the work, all or part of the wages required by the contract, the (Agency) may, after written notice to the contractor, sponsor,

applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased.

(3) **Payrolls and basic records**. (i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work. Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made and actual wages paid. Whenever the Secretary of Labor has found under 29 CFR 5.5(a)(1)(iv) that the wages of any laborer or mechanic include the amount of any costs reasonably anticipated in providing benefits under a plan or program described in section 1(b)(2)(B) of the Davis-Bacon Act, the contractor shall maintain records which show that the commitment to provide such benefits is enforceable, that the plan or program is financially responsible, and that the plan or program has been communicated in writing to the laborers or mechanics affected, and records which show the costs anticipated or the actual cost incurred in providing such benefits. Contractors employing apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs.
(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Local Borrower. Such documentation shall be available on request of WIFA or EPA. As to each payroll copy received, the subrecipient shall provide written confirmation in a form satisfactory to the State indicating whether or not the project is in compliance with the requirements of 29 CFR 5.5 (a)(1) based on the most recent payroll copies for the specified week. **The payrolls shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number).** The required weekly payroll information may be submitted in any form desired. Optional Form WH-347 is available for this purpose from the Wage and Hour Division Web site at http://www.dol.gov/whd/forms/wh347.pdf or its successor site. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Contractors and subcontractors shall maintain the full social security number and current address of each covered worker, and shall provide them upon request to the Local Borrower for transmission to WIFA or EPA, if requested by EPA, WIFA, the contractor, or the Wage and Hour Division of the Department of Labor for purposes of an investigation or audit of compliance with prevailing wage requirements. It is not a violation of this section for a prime contractor to require a subcontractor to provide addresses and social security numbers to the prime contractor for its own records, without weekly submission to the Local Borrower.
(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:
(1) That the payroll for the payroll period contains the information required to be provided under Sec. 5.5 (a)(3)(ii) of Regulations, 29 CFR part 5, the appropriate information is being maintained

under Sec. 5.5 (a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;
(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;
(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.
(C) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by paragraph (a)(3)(ii)(B) of this section.
(D) The falsification of any of the above certifications may subject the contractor or subcontractor to civil or criminal prosecution under section 1001 of title 18 and section 231 of title 31 of the United States Code.
(iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of WIFA. EPA or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency or WIFA may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12.

(4) **Apprentices and trainees** - (i) Apprentices. Apprentices will be permitted to work at less than the predetermined rate for the work they performed when they are employed pursuant to and individually registered in a bona fide apprenticeship program registered with the U.S. Department of Labor, Employment and Training Administration, Office of Apprenticeship Training, Employer and Labor Services, or with a State Apprenticeship Agency recognized by the Office, or if a person is employed in his or her first 90 days of probationary employment as an apprentice in such an apprenticeship program, who is not individually registered in the program, but who has been certified by the Office of Apprenticeship Training, Employer and Labor Services or a State Apprenticeship Agency (where appropriate) to be eligible for probationary employment as an apprentice. The allowable ratio of apprentices to journeymen on the job site in any craft classification shall not be greater than the ratio permitted to the contractor as to the entire work force under the registered program. Any worker listed on a payroll at an apprentice wage rate, who is not registered or otherwise employed as stated above, shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any apprentice performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. Where a contractor is performing construction on a project in a locality other than that in which its program is registered, the ratios and wage rates (expressed in percentages of the journeyman's hourly rate) specified in the contractor's or subcontractor's registered program shall be observed. Every apprentice must be paid at not less than the rate

specified in the registered program for the apprentice's level of progress, expressed as a percentage of the journeymen hourly rate specified in the applicable wage determination. Apprentices shall be paid fringe benefits in accordance with the provisions of the apprenticeship program. If the apprenticeship program does not specify fringe benefits, apprentices must be paid the full amount of fringe benefits listed on the wage determination for the applicable classification. If the Administrator determines that a different practice prevails for the applicable apprentice classification, fringes shall be paid in accordance with that determination. In the event the Office of Apprenticeship Training, Employer and Labor Services, or a State Apprenticeship Agency recognized by the Office, withdraws approval of an apprenticeship program, the contractor will no longer be permitted to utilize apprentices at less than the applicable predetermined rate for the work performed until an acceptable program is approved.
(ii) Trainees. Except as provided in 29 CFR 5.16, trainees will not be permitted to work at less than the predetermined rate for the work performed unless they are employed pursuant to and individually registered in a program which has received prior approval, evidenced by formal certification by the U.S. Department of Labor, Employment and Training Administration. The ratio of trainees to journeymen on the job site shall not be greater than permitted under the plan approved by the Employment and Training Administration. Every trainee must be paid at not less than the rate specified in the approved program for the trainee's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Trainees shall be paid fringe benefits in accordance with the provisions of the trainee program. If the trainee program does not mention fringe benefits, trainees shall be paid the full amount of fringe benefits listed on the wage determination unless the Administrator of the Wage and Hour Division determines that there is an apprenticeship program associated with the corresponding journeyman wage rate on the wage determination which provides for less than full fringe benefits for apprentices. Any employee listed on the payroll at a trainee rate who is not registered and participating in a training plan approved by the Employment and Training Administration shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any trainee performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In the event the Employment and Training Administration withdraws approval of a training program, the contractor will no longer be permitted to utilize trainees at less than the applicable predetermined rate for the work performed until an acceptable program is approved.
(iii) Equal employment opportunity. The utilization of apprentices, trainees and journeymen under this part shall be in conformity with the equal employment opportunity requirements of Executive Order 11246, as amended, and 29 CFR part 30.

(5) **Compliance with Copeland Act requirements**. The contractor shall comply with the requirements of 29 CFR part 3, which are incorporated by reference in this contract.

(6) **Subcontracts**. The contractor or subcontractor shall insert in any subcontracts the clauses contained in 29 CFR 5.5(a)(1) through (10) and such other clauses as the EPA determines may by appropriate, and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in 29 CFR 5.5.

(7) **Contract termination: debarment**. A breach of the contract clauses in 29 CFR 5.5 may be grounds for termination of the contract, and for debarment as a contractor and a subcontractor as provided in 29 CFR 5.12.

(8) **Compliance with Davis-Bacon and Related Act requirements**. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3, and 5 are herein incorporated by reference in this contract.

(9) **Disputes concerning labor standards**. Disputes arising out of the labor standards provisions of this contract shall not be subject to the general disputes clause of this contract. Such disputes shall be resolved in accordance with the procedures of the Department of Labor set forth in 29 CFR parts 5, 6, and7. Disputes within the meaning of this clause include disputes between the contractor (or any of its subcontractors) and the Local Borrower, WIFA, EPA, the U.S. Department of Labor, or the employees or their representatives.

(10) **Certification of eligibility**. (i) By entering into this contract, the contractor certifies that neither it (nor he or she) nor any person or firm who has an interest in the contractor's firm is a person or firm ineligible to be awarded Government contracts by virtue of section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1).
(ii) No part of this contract shall be subcontracted to any person or firm ineligible for award of a Government contract by virtue of section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1).
(iii) The penalty for making false statements is prescribed in the U.S. Criminal Code, 18 U.S.C. 1001.

(b) **Contract Work Hours and Safety Standards Act**. The Local Borrower shall insert the following clauses set forth in paragraphs (b)(1), (2), (3), and (4) of this section in full in any contract in an amount in excess of $100,000 and subject to the overtime provisions of the Contract Work Hours and Safety Standards Act. These clauses shall be inserted in addition to the clauses required by Sec. 5.5(a) or 4.6 of part 4 of this title. As used in this paragraph, the terms laborers and mechanics include watchmen and guards.
(1) Overtime requirements. No contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any such laborer or mechanic in any workweek in which he or she is employed on such work to work in excess of forty hours in such workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times the basic rate of pay for all hours worked in excess of forty hours in such workweek.
(2) Violation; liability for unpaid wages; liquidated damages. In the event of any violation of the clause set forth in paragraph (b)(1) of this section the contractor and any subcontractor responsible therefore shall be liable for the unpaid wages. In addition, such contractor and subcontractor shall be liable to the United States (in the case of work done under contract for the District of Columbia or a territory, to such District or to such territory), for liquidated damages. Such liquidated damages shall be computed with respect to each individual laborer or mechanic, including watchmen and guards, employed in violation of the clause set forth in paragraph (b)(1) of this section, in the sum of $10 for each calendar day on which such individual was required or permitted to work in excess of the standard workweek of forty hours without payment of the overtime wages required by the clause set forth in paragraph (b)(1) of this section.

(3) Withholding for unpaid wages and liquidated damages. The Local Borrower, upon its own action or upon written request of the EPA Award Official or an authorized representative of the Department of Labor shall withhold or cause to be withheld, from any moneys payable on account of work performed by the contractor or subcontractor under any such contract or any other Federal contract with the same prime contractor, or any other federally-assisted contract subject to the Contract Work Hours and Safety Standards Act, which is held by the same prime contractor, such sums as may be determined to be necessary to satisfy any liabilities of such contractor or subcontractor for unpaid wages and liquidated damages as provided in the clause set forth in paragraph (b)(2) of this section.
(4) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses set forth in paragraph (b)(1) through (4) of this section and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for compliance by any subcontractor or lower tier subcontractor with the clauses set forth in paragraphs (b)(1) through (4) of this section.
(c) In addition to the clauses contained in paragraph (b), in any contract subject only to the Contract Work Hours and Safety Standards Act and not to any of the other statutes cited in 29 CFR Sec. 5.1, the Local Borrower shall insert a clause requiring that the contractor or subcontractor shall maintain payrolls and basic payroll records during the course of the work and shall preserve them for a period of three years from the completion of the contract for all laborers and mechanics, including guards and watchmen, working on the contract. Such records shall contain the name and address of each such employee, social security number, correct classifications, hourly rates of wages paid, daily and weekly number of hours worked, deductions made, and actual wages paid. Further, the Local Borrower shall insert in any such contract a clause providing that the records to be maintained under this paragraph shall be made available by the contractor or subcontractor for inspection, copying, or transcription by authorized representatives of WIFA, EPA and the Department of Labor, and the contractor or subcontractor will permit such representatives to interview employees during working hours on the job.

Section 3. General Provisions.

(a) Binding Effect. This Wage Rate and Forgivable Principal Addendum shall inure to the benefit of and shall be binding upon WIFA and the Local Borrower and their respective successors and assigns.

(b) Severability. In the event any provision of this Wage Rate and Forgivable Principal Addendum shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

(c) Amendments, Supplements and Modifications. This Wage Rate and Forgivable Principal Addendum may not be amended, supplemented or modified without the prior written consent of WIFA and the Local Borrower.

(d) Execution in Counterparts. This Wage Rate and Forgivable Principal Addendum may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

(e) Applicable Law. This Wage Rate and Forgivable Principal Addendum shall be governed by and construed in accordance with the laws of the State of Arizona.

(f) Captions. The captions or headings in this Wage Rate and Forgivable Principal Addendum are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions of this Wage Rate and Forgivable Principal Addendum.

(g) Further Assurances. The Local Borrower shall, at the request of WIFA , authorize, execute, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights and agreements granted or intended to be granted by this Wage Rate and Forgivable Principal Addendum.

(h) Arbitration. The parties hereto agree to use arbitration to the extent required by Section 12-1518 of the Arizona Revised Statutes.

(i) Notice Regarding A.R.S. § 38 511. To the extent applicable by provision of law, the parties acknowledge that this Wage Rate and Forgivable Principal Addendum is subject to cancellation pursuant to A.R.S. § 38-511, the provisions of which are hereby incorporated herein.

[SIGNATURE PAGE FOLLOWS]

WIFA and the Local Borrower are signing this Wage Rate and Forgivable Principal Addendum to be effective as part of the Loan Agreement.

Water Infrastructure Finance Authority of Arizona

By: ______________________________________

Chelsea McGuire, Executive Director

Town of Chino Valley

By: ______________________________________

Terri Denemy, Town Manager

[Signature page to Wage Rate and Forgivable Principal Addendum to Loan Agreement]

LOAN AGREEMENT ADDENDUM

American Iron and Steel Requirements for Compliance with Federal Law

Water Infrastructure Finance Authority of Arizona

This document (this "American Iron and Steel Addendum") sets forth additional requirements made applicable to state revolving fund Loans made by the Water Infrastructure Finance Authority of Arizona ("WIFA") by federal law. The provisions in this American Iron and Steel Addendum are a part of the Loan Agreement. Capitalized terms not otherwise defined herein shall have the meanings given them in the Loan Agreement.

The parties acknowledge and agree that funds disbursed by WIFA to the Local Borrower will include funds made available to WIFA by the federal government under federal law, and that the requirements of federal law include those set forth in this American Iron and Steel Addendum. The Local Borrower agrees to comply with all of those requirements and agrees that failure to do so is a breach of the provisions of the Loan Agreement which may result in a default under the Loan Agreement, termination of WIFA's obligation to make disbursements on the Loan and the Local Borrower being required to repay all amounts that have been disbursed by WIFA on the Loan, together with interest and fees as provided in the Loan Agreement.

Federal law requires that WIFA include in all assistance agreements, including the Loan Agreement, for the construction, alteration, maintenance, or repair of treatment works under the Clean Water State Revolving Fund and for the construction, alteration, maintenance, or repair of a public water system under the Drinking Water State Revolving Fund, a provision requiring the application of American Iron and Steel requirements for the entirety of the construction activities financed by the assistance agreement through completion of construction, no matter when construction commences. Whether or not the project has multiple sources of funding, the American Iron and Steel requirements apply to the entire project and not just to the activities funded by the money made available to WIFA by the federal government.

Section 1. **<u>American Iron and Steel Requirements</u>.** In accordance with federal law:

(a)(1) None of the funds made available to WIFA as authorized by title VI of the Federal Water Pollution Control Act (33 U.S.C. 1381 et seq.) or as authorized by section 1452 of the Safe Drinking Water Act (42 U.S.C. 300j-12) shall be used for a project for the construction, alteration, maintenance, or repair of a public water system or treatment works unless all of the iron and steel products used in the project are produced in the United States.

(2) In this section, the term "iron and steel products" means the following products made primarily of iron or steel: lined or unlined pipes and fittings, manhole covers and other municipal castings, hydrants, tanks, flanges, pipe clamps and restraints, valves, structural steel, reinforced precast concrete, and construction materials.

(b) Subsection (a) shall not apply in any case or category of cases in which the Administrator of the Environmental Protection Agency (in this section referred to as the "Administrator") finds that—

(1) applying subsection (a) would be inconsistent with the public interest;

(2) iron and steel products are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality; or

(3) inclusion of iron and steel products produced in the United States will increase the cost of the overall project by more than 25 percent.

(c) If the Administrator receives a request for a waiver under this section, the Administrator shall make available to the public on an informal basis a copy of the request and information available to the Administrator concerning the request, and shall allow for informal public input on the request for at least 15 days prior to making a finding based on the request. The Administrator shall make the request and accompanying information available by electronic means, including on the official public Internet Web site of the Environmental Protection Agency.

Section 2. General Provisions.

(a) Binding Effect. This American Iron and Steel Addendum shall inure to the benefit of and shall be binding upon WIFA and the Local Borrower and their respective successors and assigns.

(b) Severability. In the event any provision of this American Iron and Steel Addendum shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

(c) Amendments, Supplements and Modifications. This American Iron and Steel Addendum may not be amended, supplemented or modified without the prior written consent of WIFA and the Local Borrower.

(d) Execution in Counterparts. This American Iron and Steel Addendum may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

(e) Applicable Law. This American Iron and Steel Addendum shall be governed by and construed in accordance with the laws of the State of Arizona and applicable federal law.

(f) Captions. The captions or headings in this American Iron and Steel Addendum are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions of this American Iron and Steel Addendum.

(g) Further Assurances. The Local Borrower shall, at the request of WIFA , authorize, execute, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights and agreements granted or intended to be granted by this American Iron and Steel Addendum.

(h) Prohibition Against Discrimination. In the event that it applies, the parties agree to comply with the Arizona Governor's Executive Order 2009-9, entitled "Prohibition of

Discrimination in State Contracts Non-Discrimination in Employment by Government Contractors and Subcontractors," which mandates that all persons, regardless of race, color, religion, sex, age, or national origin shall have equal access to employment opportunities, and all other applicable state and Federal employment laws, rules, and regulations, including the Americans with Disabilities Act. The Local Borrower shall take affirmative action to ensure that applicants for employment and employees are not discriminated against due to race, creed, color, religion, sex, national origin or disability.

(i) Arbitration. In the event of a dispute, the parties agree to use arbitration, after exhausting applicable administrative review, to the extent required by Arizona Revised Statutes Section 12-1518, and the prevailing party shall be entitled to attorney's fees and costs with respect thereto.

(j) Notice of Arizona Revised Statutes Section 38-511 - Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to this American Iron and Steel Addendum under the law of the State of Arizona.

[SIGNATURE PAGE FOLLOWS]

WIFA and the Local Borrower are signing this American Iron and Steel Addendum to be effective as part of the Loan Agreement.

Water Infrastructure Finance Authority of Arizona

By: ____

Chelsea McGuire, Executive Director

Town of Chino Valley

By: ____

Terri Denemy, Town Manager

[Signature page to American Iron and Steel Addendum to Loan Agreement]

LOAN AGREEMENT ADDENDUM

Build America, Buy America Act Requirements for Compliance with Federal Law

Water Infrastructure Finance Authority of Arizona

This document (this "Build America, Buy America Addendum") sets forth additional requirements made applicable to state revolving fund Loans made by the Water Infrastructure Finance Authority of Arizona ("WIFA") by federal law. The provisions in this Build America, Buy America Addendum are a part of the Loan Agreement. Capitalized terms not otherwise defined herein shall have the meanings given them in the Loan Agreement.

The parties acknowledge and agree that funds disbursed by WIFA to the Local Borrower will include funds made available to WIFA by the federal government under federal law, and that the requirements of federal law include those set forth in this Build America, Buy America Addendum. The Local Borrower agrees to comply with all of those requirements and agrees that failure to do so is a breach of the provisions of the Loan Agreement which may result in a default under the Loan Agreement, termination of WIFA's obligation to make disbursements on the Loan and the Local Borrower being required to repay all amounts that have been disbursed by WIFA on the Loan, together with interest and fees as provided in the Loan Agreement.

Federal law requires that WIFA include in all assistance agreements, including the Loan Agreement, for any infrastructure project under the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund, a provision requiring the application of Build America, Buy America requirements. Whether or not the project has multiple sources of funding, the Build America, Buy America requirements apply to the entire project and not just to the activities funded by the money made available to WIFA by the federal government.

Section 1. **<u>Build America, Buy America Requirements</u>.** In accordance with federal law (including those imposed by the Infrastructure Investment and Jobs Act, Public Law No. 117-58):

(a) None of the funds made available to WIFA as authorized by title VI of the Federal Water Pollution Control Act (33 U.S.C. 1381 et seq.) or as authorized by section 1452 of the Safe Drinking Water Act (42 U.S.C. 300j-12) shall be used for a project for infrastructure unless:

(1) all iron and steel used in the project are produced in the United States--this means all manufacturing processes, from the initial melting stage through the application of coatings, occurred in the United States.

(2) all manufactured products used in the project are produced in the United States—this means the manufactured product was manufactured in the United States; and the cost of the components of the manufactured product that are mined, produced, or manufactured in the United States is greater than 55 percent of the total cost of all components of the manufactured product, unless another standard for determining the minimum amount of domestic content of the manufactured product has been established under applicable law or regulation.

(3) all construction materials[1] are manufactured in the United States—this means that all manufacturing processes for the construction material occurred in the United States.

The Buy America preference only applies to articles, materials, and supplies that are consumed in, incorporated into, or affixed to an infrastructure project. As such, it does not apply to tools, equipment, and supplies, such as temporary scaffolding, brought to the construction site and removed at or before the completion of the infrastructure project. Nor does a Buy America preference apply to equipment and furnishings, such as movable chairs, desks, and portable computer equipment, which are used at or within the finished infrastructure project, but are not an integral part of the structure or permanently affixed to the infrastructure project.

(b) *Waivers.* When necessary, recipients may apply for, and the Environmental Protection Agency (EPA) may grant, a waiver from these requirements. The EPA has information on the process for requesting a waiver from these requirements at https://www.epa.gov/cwsrf/build-america-buy-america-baba.

When the EPA has made a determination that one of the following exceptions applies, the awarding official may waive the application of the domestic content procurement preference in any case in which the EPA determines that:

(1) applying the domestic content procurement preference would be inconsistent with the public interest;

(2) the types of iron, steel, manufactured products, or construction materials are not produced in the United States in sufficient and reasonably available quantities or of a satisfactory quality; or

(3) the inclusion of iron, steel, manufactured products, or construction materials produced in the United States will increase the cost of the overall project by more than 25 percent.

A request to waive the application of the domestic content procurement preference must be in writing. The EPA will provide instructions on the format, contents, and supporting materials required for any waiver request. Waiver requests are subject to public comment periods of no less than 15 days and must be reviewed by the Made in America Office.

There may be instances where an award qualifies, in whole or in part, for an existing waiver described at https://www.epa.gov/cwsrf/build-america-buy-america-baba.

(c) The Local Borrower shall comply with all record keeping and reporting requirements under all applicable legal authorities, including any reports required by the funding authority (such as EPA and/or a state), such as performance indicators of program deliverables, information on costs and project progress. The Local Borrower understands that (i) each contract and subcontract related to the Project is subject to audit by appropriate federal and state entities and (ii) failure to comply with the applicable legal requirements and the Loan Agreement may result in a default hereunder that results in a repayment of the Loan Agreement, termination and/or

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[1] Excludes cement and cementitious materials, aggregates such as stone, sand or gravel, or aggregate binding agents or additives.

repayment of grants, cooperative agreements, direct assistance or other types of financial assistance, and/or other remedial actions.

(d) *Definitions*.

"Construction materials" includes an article, material, or supply—other than an item of primarily iron or steel; a manufactured product; cement and cementitious materials; aggregates such as stone, sand, or gravel; or aggregate binding agents or additives 46—that is or consists primarily of:

- non-ferrous metals;
- plastic and polymer-based products (including polyvinylchloride, composite building materials, and polymers used in fiber optic cables);
- glass (including optic glass);
- lumber; or
- drywall.

"Domestic content procurement preference" means all iron and steel used in the project are produced in the United States; the manufactured products used in the project are produced in the United States; or the construction materials used in the project are produced in the United States.

"Infrastructure" includes, at a minimum, the structures, facilities, and equipment for, in the United States, roads, highways, and bridges; public transportation; dams, ports, harbors, and other maritime facilities; intercity passenger and freight railroads; freight and intermodal facilities; airports; water systems, including drinking water and wastewater systems; electrical transmission facilities and systems; utilities; broadband infrastructure; and buildings and real property. Infrastructure includes facilities that generate, transport, and distribute energy.

"Project" means the construction, alteration, maintenance, or repair of infrastructure in the United States.

Section 2. <u>General Provisions</u>.

(a) <u>Binding Effect</u>. This Build America, Buy America Addendum shall inure to the benefit of and shall be binding upon WIFA and the Local Borrower and their respective successors and assigns.

(b) <u>Severability</u>. In the event any provision of this Build America, Buy America Addendum shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

(c) Amendments, Supplements and Modifications. This Build America, Buy America Addendum may not be amended, supplemented or modified without the prior written consent of WIFA and the Local Borrower.

(d) Execution in Counterparts. This Build America, Buy America Addendum may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

(e) Applicable Law. This Build America, Buy America Addendum shall be governed by and construed in accordance with the laws of the State of Arizona and applicable federal law.

(f) Captions. The captions or headings in this Build America, Buy America Addendum are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions of this Build America, Buy America Addendum.

(g) Further Assurances. The Local Borrower shall, at the request of WIFA , authorize, execute, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights and agreements granted or intended to be granted by this Build America, Buy America Addendum.

(h) Prohibition Against Discrimination. In the event that it applies, the parties agree to comply with the Arizona Governor's Executive Order 2009-9, entitled "Prohibition of Discrimination in State Contracts Non-Discrimination in Employment by Government Contractors and Subcontractors," which mandates that all persons, regardless of race, color, religion, sex, age, or national origin shall have equal access to employment opportunities, and all other applicable state and Federal employment laws, rules, and regulations, including the Americans with Disabilities Act. The Local Borrower shall take affirmative action to ensure that applicants for employment and employees are not discriminated against due to race, creed, color, religion, sex, national origin or disability.

(i) Arbitration. In the event of a dispute, the parties agree to use arbitration, after exhausting applicable administrative review, to the extent required by Arizona Revised Statutes Section 12-1518, and the prevailing party shall be entitled to attorney's fees and costs with respect thereto.

(j) Notice of Arizona Revised Statutes Section 38-511 - Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to this Buy America, Build America Addendum under the law of the State of Arizona.

[SIGNATURE PAGE FOLLOWS]

WIFA and the Local Borrower are signing this Build America, Buy America Addendum to be effective as part of the Loan Agreement.

Water Infrastructure Finance Authority of Arizona

By: ____

Chelsea McGuire, Director

Town of Chino Valley

By:____

Terri Denemy, Town Manager

[Signature page to Build America, Buy America Addendum to Loan Agreement]

Exhibit A of Loan Agreement

Section 1: Financial Assistance Terms and Conditions
Town of Chino Valley
TBD

Loan Number…………………………………………………………………………… 910226-27

Closing Date………………………………………………………………………… **TBD**

First Payment Period……………………………………………………………………… 07/01/26

Financial Assistance Terms and Conditions

Original Loan Amount as of the Closing Date……………………………………	$	10,000,000.00
Forgivable Principal Amount……..……………..……………………………………	$	1,260,000.00
Intended Repayment Amount………...……………………………………….…...	$	8,740,000.00
Loan Term………………………………………………………………………		20
Combined Interest & Fee Rate…...		**4.400%**
Total # of Payment Periods within Loan Term………………………………………		40

** Combined Interest and Fee Rate (CIFR) allocation: Fee = 1.5% (150 basis points); Interest = CIFR minus Fee.*

Principal Repayments

Period Principal Repayments Begin…………………………………………………	2
First Principal Repayment Date……………………………………………………	07/01/26
Final Principal Repayment Date……………………………………………………	07/01/45

Combined Interest and Fee Payment Dates

First Combined Interest and Fee Payment Date*……………………………………	07/01/26
Final Combined Interest and Fee Payment Date……………………………………	07/01/45

* *Actual initial Combined Interest and Fee payment calculated only on dollar amount drawn against loan as of initial payment date*

Debt Service Reserve Fund Requirements

Total Reserve Amount………………………………………………………..………	None
Annual Amount…………………………………………………………………………	None
Reserve Funded by (Date)…………………………………………………………	Not Applicable

Repair and Replacement Fund Requirement

Begin Funding on (Date)………………………………………………………………	Not Applicable
Annual Amount…………………………………………………………………………	None
Semi-Annual Deposit………………………………………………………………	None

Annual Payment

Years 1 through 5............................……………………………………………	$	666,088.05
Years 6 through 10............................…………………………………………	$	666,088.05
Years 11 through 15............................………………………………………	$	666,088.05
Years 16 through 20............................………………………………………	$	666,088.05

Section 2: Loan Repayment Schedule
Town of Chino Valley
07-May-26

Year	Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Semi-Annual Combined Interest and Fee Payment	Annual Principal Repayment	Total Annual Payment
1	1	01/01/26	4.400%	0.00		
1	2	07/01/26	4.400%	96,140.00	281,528.05	377,668.05
2	3	01/01/27	4.400%	186,086.38		
2	4	07/01/27	4.400%	186,086.38	293,915.29	666,088.05
3	5	01/01/28	4.400%	179,620.24		
3	6	07/01/28	4.400%	179,620.24	306,847.57	666,088.05
4	7	01/01/29	4.400%	172,869.60		
4	8	07/01/29	4.400%	172,869.60	320,348.85	666,088.05
5	9	01/01/30	4.400%	165,821.92		
5	10	07/01/30	4.400%	165,821.92	334,444.21	666,088.05
6	11	01/01/31	4.400%	158,464.15		
6	12	07/01/31	4.400%	158,464.15	349,159.75	666,088.05
7	13	01/01/32	4.400%	150,782.64		
7	14	07/01/32	4.400%	150,782.64	364,522.77	666,088.05
8	15	01/01/33	4.400%	142,763.14		
8	16	07/01/33	4.400%	142,763.14	380,561.77	666,088.05
9	17	01/01/34	4.400%	134,390.78		
9	18	07/01/34	4.400%	134,390.78	397,306.49	666,088.05
10	19	01/01/35	4.400%	125,650.04		
10	20	07/01/35	4.400%	125,650.04	414,787.97	666,088.05
11	21	01/01/36	4.400%	116,524.70		
11	22	07/01/36	4.400%	116,524.70	433,038.65	666,088.05
12	23	01/01/37	4.400%	106,997.85		
12	24	07/01/37	4.400%	106,997.85	452,092.35	666,088.05
13	25	01/01/38	4.400%	97,051.82		
13	26	07/01/38	4.400%	97,051.82	471,984.41	666,088.05
14	27	01/01/39	4.400%	86,668.16		
14	28	07/01/39	4.400%	86,668.16	492,751.73	666,088.05
15	29	01/01/40	4.400%	75,827.63		
15	30	07/01/40	4.400%	75,827.63	514,432.79	666,088.05
16	31	01/01/41	4.400%	64,510.10		
16	32	07/01/41	4.400%	64,510.10	537,067.85	666,088.05
17	33	01/01/42	4.400%	52,694.61		
17	34	07/01/42	4.400%	52,694.61	560,698.83	666,088.05
18	35	01/01/43	4.400%	40,359.23		
18	36	07/01/43	4.400%	40,359.23	585,369.59	666,088.05
19	37	01/01/44	4.400%	27,481.11		
19	38	07/01/44	4.400%	27,481.11	611,125.83	666,088.05
20	39	01/01/45	4.400%	14,036.33		
20	40	07/01/45	4.400%	14,036.33	638,015.25	666,087.91
				4,293,340.86	8,740,000.00	13,033,340.86

Exhibit B

Technical Terms and Conditions

Section 1
Budget

Uses by Budget Item	Amount Budgeted
Planning………………………………………………………………...	$0.00
Design & Engineering…………………………………………………….	$826,915.00
Legal/Debt Authorization………………………………………………	$0.00
Financial Advisor………………………………………………………	$0.00
Land/System Acquisition………………………………………………	$0.00
Equipment/Materials…………………………………………………...	$0.00
Construction/Installation/Improvement………………………………...	$9,173,085.00
Inspection & Construction Management………………………………	$0.00
Project Officer………………………………………………………….	$0.00
Administration………………………………………………………….	$0.00
Staff Training…………………………………………………………..	$0.00
Capitalized Interest……………………………………………………..	$0.00
Refinance Loan………………………………………………………..	$0.00
Other…………………………………………………………………….	$0.00
Total Budget……………………………………………………...	$10,000,000.00

Section 2
Project Description

The project will construct two concrete aerated equalization basins and a concrete pump station with VFD-controlled submersible pumps to buffer peak flows and meter influent to the existing membrane bioreactors. A new bar screen will provide coarse screening upstream of the basins protecting all downstream equipment from ragging issues. Two HDPE sludge storage tanks with aeration and rotary lobe feed pumps will improve solids handling and processing time.

Section 3
Estimated Observation and Disbursement Schedule

Observation Schedule B:

Observation 1: Upon borrower notification of construction commencement

Additional Observations: at least one site observation within each 12 month period

Final Observation: 80% construction budget disbursement

Additional Observations – A WIFA representative may perform additional observations based on information provided in the projects status reports included in each Local Borrower disbursement requisition form.

Withholding Percentage: 10% (released after deliverables received)

Section 4
Requirements Prior To Construction

Section 4.1 **Construction Bids.** The Local Borrower shall submit to the Authority for review and approval prior to execution:

(a) engineering contracts related to the Project,

(b) bid documents related to the Project,

(c) construction contracts related to the Project, and

(d) certification of positive effort for disadvantaged business enterprise participation.

Section 4.2 **User Charges**. The Local Borrower has established (or, if the System is not yet in operation, the Local Borrower will, at or before the time the System commences operation, establish) a system of user charges which, with other funds lawfully available, will at all times be sufficient to pay the costs of operation and maintenance of the System, including renewals and replacements of the System. The Local Borrower also agrees that such system of user charges will be established and maintained in compliance with any applicable requirements of state and federal law as long as the Local Borrower owes amounts under this Loan Agreement. The Local Borrower at its sole option may pay the costs of operation, maintenance, repair, replacement, extensions and additions to the System from any funds lawfully available to it for such purpose.

Section 4.3 **Interest in Project Site**. As a condition of the Loan, the Local Borrower will demonstrate to the satisfaction of the Authority that the Local Borrower has or will have a fee simple or such other estate or interest in the site of the Project, including necessary easements and rights-of-way, as the Authority finds sufficient to assure undisturbed use and possession for the purpose of construction and operation of the Project for the estimated life of the Project.

Section 4.4 **Federal Clean Water Act**. The Local Borrower covenants that, to the extent legally applicable, the Project will meet the requirements of the Federal Clean Water Act in effect on the date of Loan Closing and any amendments thereto that may retroactively apply to the Loan, and the Local Borrower agrees that the Project will comply with applicable provisions of those federal laws and authorities listed in Article 9 of the Standard Terms and Conditions.

Section 4.5 **Federal Safe Drinking Water Act**. The Local Borrower covenants that, to the extent legally applicable, the Project will meet the requirements of the Federal Safe Drinking Water Act in effect on the date of Loan Closing and any amendments thereto that may retroactively apply to the Loan, and the Local Borrower agrees that the Project will comply with applicable provisions of those federal laws and authorities listed in Article 9 of the Standard Terms and Conditions.

Section 4.6 **Signs**. The Local Borrower shall erect a construction sign displaying information on the Project and the funding sources. The Authority shall provide specifications for such construction signs.

Section 5
Requirements During Construction

Section 5.1 **Changes in Project Scope.** The Local Borrower shall submit to the Authority, for review and approval prior to execution, any change to the plans and specifications, construction contracts, Eligible Project Costs, or any other change which will effect the performance standards or purpose of the Project.

Section 5.2 **Completion of Project and Provision of Moneys Therefor**. The Local Borrower covenants and agrees (a) to exercise its best efforts in accordance with prudent utility construction practice to complete the Project and (b) to the extent permitted by law, to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives hereunder and under any subsequent loan from the Authority, required to complete the Project.

Section 5.3 **Inspections; Information**. The Local Borrower shall permit the Authority and any party designated by the Authority to examine, visit and inspect, at any and all reasonable times, the property, if any, constituting the Project, and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the Authority may reasonably require in connection therewith.

Section 5.4 **Adjustments for Ineligible Costs**. The Local Borrower shall promptly reimburse the Authority for any portion of the Loan which is determined to have been used for costs that are not eligible for funding under the Authority Act, the Federal Clean Water Act, as amended, or the Federal Safe Drinking Water Act, as amended, unless such matter is curable in some other manner by the Local Borrower to the satisfaction of the Authority. Such reimbursement shall be promptly repaid to the Authority upon written request of the Authority. Any such reimbursed principal amount will be applied to reduce the outstanding principal amount of the Loan.

Section 5.5 **Archaeological Artifacts**. In the event that archaeological artifacts or historical resources are discovered during construction excavation of the Project, the Local Borrower shall stop or cause to be stopped construction activities and will notify the State Historic Preservation Office and the Authority of such discovery.

Section 6
Requirements Prior To Final Disbursements

Section 6.1 **Plan of Operation**. After construction is 50% complete and prior to the release of the withholding, the Local Borrower will submit to the Authority a plan of operation which provides a concise, sequential description of an implementation schedule for those activities necessary to assure efficient and reliable start-up and continual operation of the Project.

Section 6.2 **Final Approval**. Prior to the release of the withholding, the Local Borrower will submit to the Authority (a) as-built drawings by a professional engineer that document all changes from the original plans and specifications (b) copies of all testing results performed by or under the supervision of a professional engineer as required by the specifications, and (c) Arizona Department of Environmental Quality (ADEQ) approval of construction or an engineer's Certificate of Completion certifying that all construction was completed in accordance with the plans and specifications or that any changes made are in conformance with the Arizona Revised Statutes, ADEQ and Environmental Protection Agency rules, permits and guidelines and are documented in the as-built drawings. Based on a review of the information submitted, the Authority reserves the right, prior to the release of the withholding, to request modifications to the Project, the system, or the materials submitted pursuant to this section.

Exhibit C

Reporting Requirements

Section 1. **Annual Loan Review**. The Authority's Annual Loan Review Form and annual financial statements in a format approved by the Authority, including the report of any annual audit(s) and all audit reports required by governmental auditing standards and any applicable Arizona rules, shall be provided by the Local Borrower to the Authority within one-hundred and eighty (180) days after the end of each fiscal year of the Local Borrower. The Local Borrower shall complete all audits and submit all reports required by the federal Single Audit Act within the time limits under that federal law, currently within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the federal agency that provided the funding or a different period is specified in a program-specific audit guide.

Section 2. **Records and Accounts**. The Local Borrower shall keep accurate records and accounts for the System, including records and accounts for the Project (the "*System Records*"), separate and distinct from its other records and accounts (the "*General Records*"). The Local Borrower must maintain the System Records in accordance with generally accepted accounting principles (GAAP), including standards relating to the reporting of infrastructure assets, as issued by the Governmental Accounting Standards Board (GASB) or by the Financial Accounting Standards Board (FASB), as applicable to the Local Borrower. If required by law, the Local Borrower must have the System Records audited annually by an independent accountant, which audit may be part of the annual audit of the General Records of the Local Borrower. The Local Borrower must make all System Records and General Records available for inspection by the Authority at any reasonable time.

Section 3. **Notice of Change In Key Personnel**. Promptly after becoming aware thereof, the Local Borrower shall provide notice in writing to the Authority of any change to the information in Section 1 of the Loan Agreement and any other change in key personnel connected to the Project and Loan.

Section 4. **Notice of Material Adverse Change**. The Local Borrower shall promptly notify the Authority of any material adverse change in the activities, prospects or condition (financial or otherwise), of the Local Borrower relating to the System, or in the ability of the Local Borrower to make all Loan Repayments from the Source of Repayment described in this Loan Agreement and otherwise to observe and perform its duties, covenants, obligations and agreements hereunder.

Section 5. **Disadvantaged Business Enterprise (DBE) Program.** The Local Borrower must report DBE participation to the Authority based on guidance from the Authority.

Section 6. **Notice of Default**. Promptly after becoming aware thereof, Local Borrower shall give notice to the Authority of (i) the occurrence of any Event of Default under the Loan Agreement or (ii) the occurrence of any breach, default, Event of Default, or event which with the giving of notice or lapse of time, or both, could become a material breach, default, or Event of Default (a "Future Breach") under any agreement, indenture, mortgage, or other instrument (other than the Loan Agreement) to which the Local Borrower is a party or by which it or any of its property is bound or affected. Local Borrower shall provide written notice to the Authority if the effect of such breach, default, Event of Default or Future Breach is to accelerate, or to permit the acceleration of, the maturity of any indebtedness under such agreement, indenture, mortgage, or other instrument; provided, however, that the failure of the Local Borrower to give such notice shall not affect the right and power of the Authority to exercise any and all of the remedies specified herein.

Section 7**.** **Notice of Construction Commencement**. The Local Borrower shall promptly notify the Authority immediately upon commencement of construction activities.

Section 8**.** **Notice of Non-Environmental Litigation**. Promptly after the commencement or overt threat thereof, Local Borrower shall provide the Authority with written notice of the commencement of all actions, suits, or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting Local Borrower which, if adversely determined, could have a material adverse effect on the condition (financial or otherwise), operations, properties, or business of Local Borrower, or on the ability of Local Borrower to perform its obligations under the Loan Agreement.

Section 9. **Notice of Environmental Litigation**. Without limiting the provisions of Section 8 above, promptly after receipt thereof, Local Borrower shall provide the Authority with written notice of the receipt of all pleadings, orders, complaints, indictments, or other communication alleging a condition that may require Local Borrower to undertake or to contribute to a cleanup or other response under laws relating to environmental protection, or which seek penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of such laws, or which claim personal injury to any person or property damage as a result of environmental factors or conditions or which, if adversely determined, could have a material adverse effect on the condition (financial or otherwise), operations, properties, or business of Local Borrower, or on the ability of Local Borrower to perform its obligations under the Loan Agreement.

Section 10. **Regulatory and Other Notices**. Promptly after receipt or submission thereof, Local Borrower shall provide the Authority with copies of any notices or other communications received from or directed to any governmental authority with respect to any matter or proceeding which could have a material adverse effect on the condition (financial or otherwise), operations, properties, or business of Local Borrower, or the ability of Local Borrower to perform its obligations under the Loan Agreement, or which reveals a substantial non compliance with any applicable law, regulation or rule.

Section 11. **Other Information**. The Local Borrower shall submit to the Authority other information regarding the condition (financial or otherwise), or operation of the Local Borrower as the Authority may, from time to time, reasonably request.

Section 12. **Additional Reporting Requirements.** The Local Borrower shall refer to the Loan Agreement Addendum for wage rate reporting requirements.

Exhibit D Source of Repayment: System Revenues and Excise Taxes

Section 1 Certain Definitions

As used in this Loan Agreement, the hereinafter defined the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), and any Additional Parity Obligations, the following terms shall have the meanings set forth below unless the context clearly requires otherwise:

"Additional Non-System Revenue Obligations" means any additional obligations which may hereafter be issued or incurred by the Local Borrower (or any financing conduit acting on behalf of the Local Borrower) having a lien upon and payable from Non-System Revenues on a parity with, and in compliance with the terms of, the Parity Third Purchase Agreement (Trustee/Seller) and the terms below under Section 3, "Additional Non-System Revenue & Parity Obligations Provisions."

"Additional Parity Obligations" means any additional parity lien obligations which may hereafter be issued or incurred by the Local Borrower (or any financing conduit acting on behalf of the Local Borrower) having a lien upon and payable from System Revenues and Non-System Revenues on a parity with this Loan Agreement, the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), the Parity (Third) Loan Agreement (WIFA), the Parity (Fourth) Loan Agreement (WIFA), and the Parity (Sixth) Loan Agreement (WIFA) in compliance with the terms below under Section 3, "Additional Non-System & Parity Obligations Provisions."

"Administrative Expenses" means the reasonable cost or value of all services rendered by the Local Borrower and its various departments with respect to the System.

"Available Coverage" means, for any fiscal year, the sum of Net System Revenues actually received in such fiscal year plus the excess of Non-System Revenues actually received in such fiscal year over the maximum amount of debt service due or to come due on the Parity Third Purchase Agreement (Trustee/Seller) and any Additional Non-System Revenue Obligations in that or any future fiscal year.

"Available Revenues" means, for any fiscal year, the sum of Net System Revenues actually received in such fiscal year plus the excess of Non-System Revenues actually received in such fiscal year over the debt service due or to come due on the Parity Third Purchase Agreement (Trustee/Seller) and any Additional Non-System Revenue Obligations in that fiscal year.

"Excise Tax Revenues" means revenues from the unrestricted transaction privilege (sales) tax, business license and franchise fees, parks and recreation fees and permits and fines and forfeitures which the Local Borrower imposes; provided that the Mayor and Council of the Local Borrower may impose other transaction privilege taxes in the future, the uses of revenue from which will be restricted, at the discretion of such Council.

"Net System Revenues" means that portion of the System Revenues remaining after providing sufficient funds for the System Operation and Maintenance Expenses.

"Non-System Revenues" means, collectively, Excise Tax Revenues and State Shared Revenues.

"Parity (First) Loan Agreement (WIFA)" means the Loan Agreement, dated as of January 12, 2007, by and between the Local Borrower and the Authority, formerly assigned the defined term of "Prior Loan Agreement (WIFA)."

"Parity (Second) Loan Agreement (WIFA)" means the Loan Agreement, dated as of January 12, 2008, by and between the Local Borrower and the Authority, formerly assigned the defined term of "Parity Loan Agreement (WIFA)."

"Parity (Third) Loan Agreement (WIFA)" means the Loan Agreement, dated as of December 30, 2014, by and between the Local Borrower and the Authority.

"Parity (Fourth) Loan Agreement (WIFA)" means the Loan Agreement (Refinance/Construction) (#910167-16), dated as of November 23, 2015, by and between the Local Borrower and the Authority.[1]

"Parity (Sixth) Loan Agreement (WIFA)" means the Loan Agreement dated as of February 24, 2017, by and between the Local Borrower and the Authority.

"Parity Loan Agreements (WIFA)" means the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), the Parity (Third) Loan Agreement (WIFA), the Parity (Fourth) Loan Agreement (WIFA), and the Parity (Sixth) Loan Agreement (WIFA).

"Parity Third Purchase Agreement (Trustee/Seller)" means the Third Purchase Agreement, dated as of November 1, 2021, by and between the Local Borrower and UMB Bank, n.a., as trustee, in its separate capacity as seller.

"Pre-2015 WIFA Agreements" means, collectively, the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), and the Parity (Third) Loan Agreement (WIFA).

"State Shared Revenues" means revenues from any excise taxes, transaction privilege (sales) taxes, income taxes and vehicle license taxes imposed by the State or any agency thereof and returned, allocated or apportioned to the Town, except the Town's share of any such taxes which by State law, rule or regulation must be expended for other purposes, such as motor vehicle fuel taxes.

"System Operation and Maintenance Expenses" means all costs reasonably incurred in connection with the operation, use and maintenance of the System, including repairs necessary to keep the System in efficient and economical operating condition, the payments of premiums for insurance hereinafter required to be carried on the System and generally all expenses of the System except depreciation, interest expense related to this Loan Agreement, Parity Loan Agreements (WIFA) and any Additional Parity Obligations, interest expenses on obligations subordinate to such obligations and payments of Administrative Expenses.

"System Revenues" means and include all income, moneys and receipts to be received by the Local Borrower, directly or indirectly, from the ownership, use or operation of the System including any waste material or by-products of the System and also including investment income.

[1] References to the Parity (Fifth) Loan Agreement were deleted as such loan was paid in full in 2020.

Section 2 Source of Repayment and Rate Covenant Provisions

(a) Source of Repayment Pledge.

It is understood and agreed that all payments with respect to the Loan shall be made only from the Source of Repayment, which is hereby pledged to the payment of all amounts due under the Loan. The Source of Repayment is the Net System Revenues and the Non-System Revenues, as hereinafter provided. The Net System Revenues and the Non-System Revenues are hereby pledged by the Local Borrower to the payment of all amounts due under the Loan and such amounts shall be secured, in all cases by a prior and paramount lien on and pledge of the Net System Revenues and the Non-System Revenues, in each case on parity with the pledge and lien granted by the Local Borrower for the payment and security of the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), as applicable, Additional Parity Obligations and Additional Non-System Revenue Obligations, as applicable.* The amounts due under this Loan Agreement, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), as applicable, any Additional Parity Obligations and any Additional Non-System Revenue Obligations, as applicable (exclusive of the Local Borrower's repayment obligations with respect to any obligations with respect to reserve fund credit instruments to be entered into by the Local Borrower with respect to Additional Parity Obligations which shall be secured on a subordinate basis), shall be equally and ratably secured by said pledge and lien without priority one over the other, as applicable to the particular pledge. The Local Borrower intends that this pledge shall be a prior and paramount lien on and a first pledge of the Net System Revenues and the Non-System Revenues, as will be sufficient to make all payments on the Loan, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), any Additional Parity Obligations and any Additional Non-System Revenue Obligations, as applicable, and the Local Borrower covenants to make the payments under the Loan, the Parity Loan Agreements (WIFA), any Additional Parity Obligations and any Additional Non-System Revenue Obligations, as applicable, from the Net System Revenues and Non-System Revenues, except to the extent that it chooses to make such payments from other legally available funds at its sole option. No part of such payments shall be payable out of any ad valorem taxes imposed by the Local Borrower, from bonds or other obligations, for the payment of which the general taxing authority of the Local Borrower is liable or pledged, or from its general funds, unless (i) the same shall have been duly budgeted by the Local Borrower according to law, (ii) such payment or payments shall be within the budget or expenditure limitations of the Constitution and laws of the State of Arizona, and (iii) such payment is not in conflict with the Constitution and laws of the State of Arizona. In no event shall the Local Borrower be required to make the payments on the Loan, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), any Additional Parity Obligations or any Additional Non-System Revenue Obligations from any revenues, receipts or sources not derived from the Net System Revenues or Non-System Revenues, as applicable.

*All of the Pre-2015 WIFA Agreements were amended to provide that what was referred to in the Pre-2015 WIFA Agreements as the "Prior Loan Agreement (WIFA)" (now assigned the defined term of "Parity (First) Loan Agreement (WIFA)") is now on parity as to pledge of, and lien on, Net System Revenues and Non-System Revenues with the Parity (Third) Loan Agreement (WIFA) and what was referred to as the Parity Loan Agreement (WIFA) (now assigned the defined term of ''Parity (Second) Loan Agreement (WIFA)". Conforming changes to accommodate such amendment were made but not separately noted. (References to the ''Prior Lease Agreement (RD)", the Parity (First) Lease Agreement (RD) and the Parity (Second) Lease Agreement (RD) were deleted as such obligations were refinanced in whole with proceeds of the loan made pursuant to the Parity (Fourth Loan Agreement (WIFA).)

The Local Borrower shall make all such payments out of the aforesaid sources and thereafter may use the remaining funds for any other lawful purpose, but only to the extent that, taking into account the reasonably anticipated receipts, such sources will not be reduced to such a level that the Local Borrower will be in noncompliance with the requirements set forth in this Loan Agreement, including the below rate covenant.

<u>(b) Rate Covenant</u>.

Prior to the release of the pledge of, and lien on, Non-System Revenues as hereinafter described, the Local Borrower hereby covenants and agrees that, to the extent permitted by applicable law, the Excise Tax Revenues shall be retained and maintained so that the amounts received from the Excise Tax Revenues and the State Shared Revenues, when combined mathematically for such purpose only, all within and for the most recently completed fiscal year of the Local Borrower, shall have been equal to at least: (i) two times the total of interest and principal requirements for the current fiscal year of the Local Borrower for this Loan Agreement, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), any Additional Parity Obligations and any Additional Non-System Revenue Obligations; plus (ii) 100% of the aggregate amounts payable in such fiscal year and secured by a lien that is subordinate to this Loan Agreement, the Parity Loan Agreements (WIFA), any Additional Parity Obligations and any Additional Non-System Revenue Obligations; plus (iii) 100% of any additional amounts required to maintain or fund necessary fund balances under the resolutions or agreements of the Local Borrower relating to the obligations of the Local Borrower described in (i) above. If the revenues from the Excise Tax Revenues and the State Shared Revenues for any such fiscal year shall not have been equal to at least one and one quarter (1¼) times the total of the interest and principal requirements for the current fiscal year of the Local Borrower for this Loan Agreement, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), any Additional Parity Obligations and any Additional Non-System Revenue Obligations or if at any time it appears that the Excise Tax Revenues and the State Shared Revenues will not be sufficient to meet such requirements, the Local Borrower shall, to the extent permitted by applicable law, impose new exactions of the type from which the Excise Tax Revenues come or increase the rates for the Excise Tax Revenues currently imposed fully sufficient at all times, after making allowance for contingencies and errors, in each fiscal year of the Local Borrower in order that (i) the Excise Tax Revenues and the State Shared Revenues will be sufficient to meet all current requirements hereunder and (ii) the Excise Tax Revenues and the State Shared Revenues will be reasonably calculated to attain the level as required by the first sentence of this paragraph. Further, prior to release of the pledge of, and lien on, Non-System Revenues as hereinafter described, the Local Borrower hereby covenants and agrees that it shall maintain Available Revenues in each fiscal year in an amount equal to or greater than the sum of: (i) 120% of the debt service or comparable payments due in such fiscal year on this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations; plus (ii) 100% of the aggregate amounts payable in such fiscal year and secured by a lien that is subordinate to this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations; plus (iii) 100% of any additional amounts required to maintain or fund necessary fund balances under the resolutions or agreements of the Local Borrower relating to the obligations of the Local Borrower described in (i) above. If Available Revenues for any such preceding fiscal year shall not equal such amount or if at any time it appears that the current receipts will not be sufficient to meet such payment requirements under this Loan Agreement, the Parity Loan Agreements (WIFA), any Additional Parity Obligations or any Additional Non-

System Revenue Obligations, the Local Borrower shall, to the extent permitted by applicable law, either impose new exactions of the type from which the Excise Tax Revenues come or increase the rates for the exactions of the type from which the Excise Tax Revenues come currently imposed or increase rates, fees and charges for services supplied by the System in order that (i) Available Revenues will be sufficient to meet all current requirements under this Loan Agreement, the Parity Loan Agreements (WIFA), any Additional Parity Obligations or any Additional Non-System Revenue Obligations and (ii) Available Revenues will be reasonably calculated to attain the level as required above for the succeeding fiscal year's payment requirements.

<u>(c) Release of Non-System Revenues</u>.
The Local Borrower may request that the Authority release the pledge of Non-System Revenues under this Loan Agreement, and the Authority, in its sole discretion, may so release such pledge upon receipt by the Authority from the Local Borrower of evidence satisfactory to the Authority that System Revenues for five consecutive full fiscal years have been sufficient to (i) pay the System Operation and Maintenance Expenses, and (ii) to produce an aggregate amount of System Revenues in each fiscal year sufficient to pay (A) 120% of the aggregate of the debt service or comparable payments payable on this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations in such fiscal year, and (B) 100% of the aggregate of the debt service or comparable payments, separately, payable and secured on a basis subordinate to this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations by System Revenues, and (iii) to maintain all necessary fund balances required under the resolutions or agreements of the Local Borrower authorizing this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations.

In the event the Authority, in its sole discretion, agrees to release the pledge of Non-System Revenues, as provided in the above paragraph, the Local Borrower covenants and agrees that from such date of release forward, it will maintain schedules of rates, fees and charges for all services supplied by the System, after making reasonable allowance for contingencies and errors in estimates to produce System Revenues in each fiscal year that are sufficient, (i) to pay System Operation and Maintenance Expenses, and (ii) to produce an aggregate amount of System Revenues in each fiscal year sufficient to pay (A) 120% of the aggregate of the debt service or comparable payments payable on this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations, including all amounts due on the Loan, in such fiscal year, and (B) 100% of the aggregate of the debt service on comparable payments, separately payable and secured on a basis subordinate to this Loan Agreement, the Parity Loan Agreements (WIFA), or any Additional Parity Obligations by System Revenues, and (iii) to maintain all necessary fund balances required under the resolutions or agreements of the Local Borrower authorizing this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations.

Section 3 Additional Non-System Revenue Obligations and Parity Obligations Provisions

The Local Borrower covenants and agrees that no other obligations of any kind will be issued that are payable from or enjoy a pledge of the Non-System Revenues or System Revenues having priority over this Loan Agreement, the Parity Loan Agreements (WIFA), or any Additional Parity Obligation except as described in the next paragraph.

(a) Additional Non-System Revenue Obligations.
It is understood and agreed that Additional Non-System Revenue Obligations having a lien upon and payable from Non-System Revenues may be issued on parity with this Loan Agreement, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), and any Additional Non-System Revenue Obligations, but only if the Excise Tax Revenues plus the State Shared Revenues, when combined mathematically for such purpose only, in the most recently completed fiscal year of the Local Borrower, shall have amounted to at least two times the highest combined interest and principal requirements for any succeeding fiscal year of the Local Borrower of (unless the pledge of Excise Tax Revenues and State Shared Revenues provided thereby has been released by the terms of the Parity Loan Agreements (WIFA)), this Loan Agreement, the Parity Loan Agreements (WIFA), the Parity Third Purchase Agreement (Trustee/Seller), and any Additional Non-System Revenue Obligations secured or so proposed to be secured by such pledge of the Excise Tax Revenues and State Shared Revenues on a parity of lien therewith; provided, however, that until the release of the pledge of, and lien on, Non-System Revenues, if such amount would be less than six times, then the Local Borrower hereby agrees not to incur Additional Non-System Revenue Obligations without the prior written consent of the Authority.

(b) Additional Parity Obligations.
It is understood and agreed that Additional Parity Obligations having a lien upon and payable from System Revenues and Non-System Revenues may be issued on parity with this Loan Agreement, the Parity Loan Agreements (WIFA), or any Additional Parity Obligations, but only as provided herein and only to provide funds to make improvements and expansions to the System, to purchase capacity rights in water production plant facilities owned by other political subdivisions of the State, to purchase capacity rights in sewage treatment plant facilities owned by other political subdivisions of the State, to acquire land, rights in land or water rights for the System, to provide reasonable reserves for Additional Parity Obligations, to refund this Loan Agreement, the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), the Parity (Third) Loan Agreement (WIFA), the Parity (Fourth) Loan Agreement (WIFA), the Parity (Sixth) Loan Agreement (WIFA), or any Additional Parity Obligations theretofore issued or incurred or to refund other bonds of the Local Borrower, if any, whether revenue bonds, general obligation bonds or other bonds or obligations, issued to provide funds to construct or acquire additions, extensions, improvements, expansions or replacements to the System, subject to the following conditions:

(i) The Local Borrower will not, at the time of the issuance of such Additional Parity Obligations, be in material default under the Parity Third Purchase Agreement (Trustee/Seller), any Additional Non-System Revenue Obligations, this Loan Agreement, the Parity Loan Agreements (WIFA), or any Additional Parity Obligations theretofore issued or incurred or under any resolution or other document related thereto or providing for the issuance of this Loan Agreement, the Parity Loan Agreements (WIFA), or any Additional Parity Obligations theretofore issued or incurred or any related credit or reserve fund credit instrument;

(ii) The issuance of Additional Parity Obligations will be duly authorized at an election, if required by law, except as to any bonds or obligations to be issued exclusively for the purpose of refunding this Loan Agreement, the Parity Loan Agreements (WIFA), or any Additional Parity Obligations theretofore issued or incurred;

(iii) The issuance of Additional Parity Obligations will be provided for by a resolution duly adopted by the Local Borrower's governing body and such Additional Parity Obligations will mature and interest will be paid on the same days of the year as this Loan Agreement, and any Additional Parity Obligations theretofore issued and incurred; and

(iv) [Intentionally omitted]

(v) Available Coverage Requirements. In addition to the covenants listed above and prior to the release of the pledge of, and lien on, Non-System Revenues, the Local Borrower further covenants and agrees that prior to incurring or issuing any Additional Parity Obligations, Available Coverage for the last full fiscal year immediately preceding the issuance of such Additional Parity Obligations as shown in a certificate or report of an independent public accountant or firm of such accountants presented to the Authority shall have been equal to or greater than the sum of: (a) 120% of the highest year's debt service or comparable payments on this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations theretofore issued or incurred then outstanding and on the Additional Parity Obligations then to be issued or incurred; (b) plus 100% of the aggregate amounts payable in such fiscal year and secured by a lien that is subordinate to this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations theretofore issued or incurred; plus (c) 100% of any additional amounts required to maintain or fund necessary fund balances under the resolutions or agreements of the Local Borrower relating to the obligations of the Local Borrower described in (a) above. In order to meet the minimum requirement for Available Coverage:

(A) (1) For the purpose of this subparagraph, if subsequent to the beginning of a fiscal year, the Local Borrower has imposed exactions of the type from which the Excise Tax Revenues come or increased the rates for exactions of the type from which the Excise Tax Revenues come imposed by the Local Borrower and the increase will remain in effect for the life of the Additional Parity Obligations proposed to be incurred, there may be added to Non-System Revenues for the fiscal year the additional amounts which would have been in effect throughout the fiscal year.

(2) For the purposes of calculations under this subparagraph, if Additional Parity Obligations are to be issued exclusively for the purpose of refunding or retiring a portion of this Loan Agreement, the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), the Parity (Third) Lease Agreement (WIFA), the Parity (Fourth) Loan Agreement (WIFA), the Parity (Sixth) Loan Agreement (WIFA), or any Additional Parity Obligations theretofore issued or incurred, the percentage requirement on such obligations

will be taken into consideration only in any future fiscal year in which any fractional part of such obligations will remain outstanding after the issuance of such Additional Parity Obligations; provided that nothing contained herein shall be construed to limit or restrict the issuance of any Additional Parity Obligations if, before or as a result of the issuance and delivery of such Additional Parity Obligations, any other obligations theretofore issued will no longer be outstanding, or full payment for any such obligations will be provided for by funds from the bond or obligation proceeds.

(B) (1) For the purposes of this subparagraph, additional amounts may be added to Net System Revenues as shown on the accountant's certificate or report in the following circumstances:

(i) If revenues have been increased as a result of construction of additions or acquisitions to the System made prior to the issuance of such Additional Parity Obligations but during either the fiscal year in which the Additional Parity Obligations are to be issued or in the preceding fiscal year, such increased System Revenues may be treated as if such additions to the System were completed on the first day of the fiscal year used for purposes of computation. The System Revenues derived from such additions and acquisitions to the System may be converted for purposes of computation to estimated Net System Revenues which would have been derived therefrom if said additions and acquisitions had actually been completed on the first day of the year used for computation purposes, such estimates to be made by a professional firm experienced in estimating future revenues and expenses of water and sewer systems and having a recognized reputation for that work.[*2]

(ii) If all or part of the proceeds of the Additional Parity Obligations are to be expended for the acquisition of existing sewage treatment plant facilities, there may be added to Net System Revenues of such preceding fiscal year Net System Revenues which would be been derived from the operation of such facilities if such facilities had been acquired and operated by the Local Borrower under the Local Borrower's applicable rate schedule during the entire preceding fiscal year, such Net System Revenues to be estimated by a professional firm experienced in estimating future revenues and expenses of water and sewer systems and having a recognized reputation for that work.[**]

(iii) If prior to the issuance of the Additional Parity Obligations and subsequent to the first day of such preceding fiscal year, the Local Borrower shall have increased its rates or charges imposed for sewer services, there may be added to Net System Revenues of such fiscal

[2*] The Pre-2015 WIFA Agreements were amended to provide the same changes thereto.

year the additional Net System Revenues which would have been received from the operation of the System during such fiscal year had such increase been in effect throughout such fiscal year, such additional Net System Revenues to be estimated by a professional firm experienced in estimating future revenues and expenses of water and sewer systems and having a recognized reputation for that work. **

(2) For purposes of calculations under this subparagraph, if Additional Parity Obligations are to be issued exclusively for the purpose of refunding or retiring a portion of this Loan Agreement, the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), the Parity (Third) Loan Agreement (WIFA), the Parity (Fourth) Loan Agreement (WIFA), the Parity (Sixth) Loan Agreement (WIFA), or any Additional Parity Obligations theretofore issued or incurred then outstanding, the percentage requirement on such obligations will be taken into consideration only in any future fiscal year in which any fractional part of such obligations will remain outstanding after the issuance of such Additional Parity Obligations; provided that nothing herein contained shall be construed to limit or restrict the issuance of any Additional Parity Obligations if before or as a result of the issuance and delivery of such Additional Parity Obligations, any other obligations theretofore issued will no longer be outstanding, or full payment for any such obligations will be provided for by funds from the bond or obligation proceeds.

(vi) In addition to the covenants listed above and after the release of the pledge of and lien on Non-System Revenues, the Local Borrower further covenants and agrees that prior to incurring or issuing any Additional Parity Obligations, the aggregate amount of Net System Revenues for the last full fiscal year immediately preceding the issuance of such Additional Parity Obligations, as shown in a certificate or report of an independent public accountant or firm of such accountants presented to the Authority, have been at least equal to the sum of the following: (a) not less than 120% of the highest year's debt service or comparable payments on this Loan Agreement, the Parity Loan Agreements (WIFA), and any Additional Parity Obligations theretofore issued or incurred then outstanding and on the Additional Parity Obligations then to be issued or incurred, and (b) not less than 100% of the aggregate of amounts payable in such fiscal year and secured on a subordinate basis by such Net System Revenues and (c) not less than 100% of any additional amounts required to maintain or fund necessary fund balances under the resolutions or agreements of the Local Borrower relating to the obligations described in (a). In order to meet the minimum coverage requirements for Net System Revenues:

(A) For the purposes of this subparagraph, additional amounts may be added to Net System Revenues as shown on the accountant's certificate or report in the following circumstances:

(i) If revenues have been increased as a result of construction of additions or acquisitions to the System made prior to the issuance of such Additional Parity Obligations but during either the fiscal year in which the Additional Parity Obligations are to be issued or in the preceding fiscal year, such increased System Revenues may be treated as if such additions to the System were completed on the first day of the fiscal year used for purposes of computation. The System Revenues derived from such additions and acquisitions to the System may be converted for purposes of computation to estimated Net System Revenues which would have been derived therefrom if said additions and acquisitions had actually been completed on the first day of the year used for computation purposes, such estimates to be made by a professional firm experienced in estimating future revenues and expenses of water and sewer systems and having a recognized reputation for that work.[**3]

(ii) If all or part of the proceeds of the Additional Parity Obligations are to be expended for the acquisition of existing sewage treatment plant facilities, there may be added to Net System Revenues of such preceding fiscal year Net System Revenues which would be been derived from the operation of such facilities if such facilities had been acquired and operated by the Local Borrower under the Local Borrower's applicable rate schedule during the entire preceding fiscal year, such Net System Revenues to be estimated by a professional firm experienced in estimating future revenues and expenses of water and sewer systems and having a recognized reputation for that work.. [***]

(iii) If prior to the issuance of the Additional Parity Obligations and subsequent to the first day of such preceding fiscal year, the Local Borrower shall have increased its rates or charges imposed for sewer services, there may be added to Net System Revenues of such fiscal year the additional Net System Revenues which would have been received from the operation of the System during such fiscal year had such increase been in effect throughout such fiscal year, such additional Net System Revenues to be estimated by a professional firm experienced in estimating future revenues and expenses of water and sewer systems and having a recognized reputation for that work.[***]

(B) For purposes of calculations under this subparagraph, if Additional Parity Obligations are to be issued exclusively for the purpose of refunding or retiring a portion of this Loan Agreement, the Parity (First) Loan Agreement (WIFA), the Parity (Second) Loan Agreement (WIFA), the Parity (Third) Loan Agreement (WIFA), the Parity (Fourth) Loan Agreement (WIFA), the Parity (Sixth) Loan Agreement (WIFA), or any Additional Parity Obligations theretofore issued or incurred then

[**3] The Pre-2015 WIFA Agreements were amended to provide the same changes thereto.

outstanding, the percentage requirement on such obligations will be taken into consideration only in any future fiscal year in which any fractional part of such obligations will remain outstanding after the issuance of such Additional Parity Obligations; provided that nothing herein contained shall be construed to limit or restrict the issuance of any Additional Parity Obligations if, before or as a result of the issuance and delivery of such Additional Parity Obligations, any other obligations theretofore issued will no longer be outstanding, or full payment for any such obligations will be provided for by funds from the bond or obligation proceeds.

Exhibit E Debt Service Reserve Requirement

No Debt Service Reserve Required

The Local Borrower shall not be required to either (i) provide a Reserve Fund Surety or (ii) fund a Reserve Fund in cash in connection with this Agreement.

Exhibit F Replacement Reserve Requirements

No Replacement Reserve Required

The Local Borrower shall not be required to maintain a Replacement Reserve in connection with the Loan.

Exhibit G Form of Opinion of Local Borrower Counsel

[__], 2026

Water Infrastructure Finance Authority of Arizona
Phoenix, Arizona

Town of Chino Valley, Arizona
Ladies and Gentlemen:

We are attorneys admitted to practice in the State of Arizona and we have acted as counsel to the Town of Chino Valley, Arizona (the "Local Borrower"), which has entered into a Loan Agreement (as hereinafter defined) with the Water Infrastructure Finance Authority of Arizona (the "Authority"), and have acted as such in connection with the authorization, execution, and delivery by the Local Borrower of the Loan Agreement (as hereinafter defined). Terms used and not otherwise defined herein have the meanings given to them in the Loan Agreement.

In so acting, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the following:

(a) the Loan Agreement, dated as of [______], 2026 (the "Loan Agreement"), by and between the Authority and the Local Borrower; and

(b) the proceedings of the Town Council of the Local Borrower relating to the approval of the Loan Agreement and the execution, issuance, and delivery thereof on behalf of the Local Borrower, and the authorization of the undertaking and completion of the Project.

We have also examined and relied upon originals, or copies certified or otherwise authenticated to our satisfaction, of such other records, documents, certificates, and other instruments, and made such investigation of law as in our judgment we have deemed necessary or appropriate to enable us to render the opinions expressed below.

Based upon the foregoing, we are of the opinion that:

1. The Local Borrower is a political subdivision of the State of Arizona with the legal right to carry on the business of the System as currently being conducted and as proposed to be conducted.

2. The Local Borrower has full legal right and authority to pledge the Source of Repayment for the Loan Repayments and to execute and deliver the Loan Agreement, and to observe and perform its duties, covenants, obligations, and agreements thereunder and to undertake

and complete the Project; subject, however, to the effect of restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, moratorium, reorganization, debt adjustment, or other similar laws affecting creditor's rights generally ("Creditor's Rights Limitations") heretofore or hereafter enacted.

3. The Local Borrower has duly and validly pledged the Source of Repayment for the punctual payment of the principal of and interest on the Loan and all other amounts due under the Loan Agreement according to its respective terms.

4. Based solely on the assertions of the Local Borrower in the Loan Agreement, all additional debt tests and reserve and other requirements applicable to the Local Borrower with respect to the pledge of the Source of Repayment have been satisfied.

5. The authorizing proceedings of the Local Borrower's Town Council approving the Loan Agreement and authorizing its execution and delivery on behalf of the Local Borrower, and authorizing the Local Borrower to undertake and complete the Project (hereinafter collectively called the "Authorizing Resolutions") have been duly and lawfully adopted and authorized in accordance with applicable Arizona law, at a meeting or meetings that were duly called pursuant to necessary public notice and held in accordance with applicable Arizona law, and at which quorums were present and acting throughout.

6. The Loan Agreement has been duly authorized, executed, and delivered by the authorized officers of the Local Borrower and, assuming that the Authority has all the requisite power and authority to authorize, execute, and deliver, and has duly authorized, executed, and delivered the Loan Agreement, the Loan Agreement constitutes the legal, valid, and binding obligation of the Local Borrower enforceable in accordance with its terms; subject, however, to the effect of and to restrictions and limitations imposed by or resulting from Creditor's Rights Limitations or other laws, judicial decisions, and principles of equity relating to the enforcement of contractual obligations generally.

7. To the best of our knowledge, after such investigation as we have deemed appropriate, the authorization, execution, and delivery of the Loan Agreement by the Local Borrower, the observance and performance by the Local Borrower of its duties, covenants, obligations, and agreements thereunder and the consummation of the transactions contemplated therein and the undertaking and completion of the Project do not and will not contravene any existing law or any existing order, injunction, judgment, decree, rule, or regulation of any court or governmental or administrative agency, authority, or person having jurisdiction over the Local Borrower or its property or assets or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any existing bond resolution, trust agreement, indenture, mortgage, deed of trust, or other agreement to which the Local Borrower is a party or by which it, or its property or assets is bound.

8. To the best of our knowledge, after such investigation as we have deemed appropriate, there is no litigation or other proceeding pending or threatened in any Court or other tribunal of competent jurisdiction (either State or Federal) questioning the creation, organization,

or existence of the Local Borrower or the validity, legality, or enforceability of the Loan Agreement, or the undertaking or completion of the Project.

This opinion is rendered on the basis of federal law and the laws of the State of Arizona as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs herein.

Respectfully Submitted,

7998004

Exhibit H Form of Tax Compliance Certificate of Local Borrower

Water Infrastructure Finance Authority of Arizona

$ 10,000,000.00 Loan to Town of Chino Valley

The Water Infrastructure Finance Authority of Arizona (the “Authority”) and Town of Chino Valley (the “Local Borrower”) are entering into a Loan Agreement (the “Loan Agreement”) in the maximum principal amount stated above pursuant to which the Authority will make a loan (the “Loan”) to the Local Borrower. In connection with its state revolving fund programs, the Authority issues its bonds (“Authority Bonds”) from time to time to finance loans and the Authority also pledges certain loans to secure and to serve as the source of payment for the Authority Bonds. As a result, and under the provisions of federal tax law applicable to the Authority Bonds, it is in the Authority’s interest for the Loan to qualify and be a Tax-Exempt Obligation that is not an AMT Obligation. Therefore, in order to establish certain facts necessary for the Loan to qualify and be treated as a Tax-Exempt Obligation that is not an AMT Obligation, and as required by the provisions of the Loan Agreement, the Local Borrower by its officer signing this Tax Compliance Certificate of Local Borrower (the “Certificate”), certifies, represents, and covenants as follows with respect to the Loan. All statements in this Certificate are of facts or, as to events to occur in the future, reasonable expectations.

I. DEFINITIONS

1.10. Attachment A. The definitions and cross-references set forth in Attachment A apply to this Certificate and its Attachments. All terms relating to a particular issue, such as Sale Proceeds, relate to the Loan, unless indicated otherwise. (For example, “Sale Proceeds” refers to Sale Proceeds of the Loan, unless indicated otherwise.)

1.20. Special Definitions. Terms used herein, to the extent not defined in Attachment A or below, have the same meaning as defined in the Loan Agreement. In addition, the following definitions apply to this Certificate and its Attachments:

“Instructions” means the Rebate Instructions attached hereto as Attachment A-1.

“Issue” means the Loan.

“Issuer” means the Local Borrower.

“Project” means the financing of a portion of the costs of acquisition, construction and improvement of facilities to be financed by the Loan and includes Issuance Costs and interest on the Loan for up to three years from the Issuance Date or, if later, one year after the date the Project is placed in service, all of which are governmental purposes for purposes of the Code.

“Reserve Fund” is defined in 3.40(a).

1.30. References. Reference to a Section means a section of the Code. Reference by number only (for example, "2.10") means that numbered paragraph of this Certificate. Reference to an Attachment means an attachment to this Certificate.

II. ISSUE DATA

2.10. Issuer. The Issuer is a Governmental Unit.

2.20. Purpose of Issue. The Issue is being issued to provide funds to pay costs of the Project.

2.30. Dates. The Sale Date of the Issue is the date on which the Loan Agreement is executed and delivered by the Authority and the Local Borrower, and the Issuance Date of the Issue is the first date on which the aggregate draws under the Loan exceed the lesser of $50,000 or 5% of the principal amount of the Loan.

2.40. Issue Price. The Issue Price of the Issue is the principal amount actually advanced by the Authority to the Issuer as the Loan.

2.50. Sale Proceeds, Net Proceeds, and Net Sale Proceeds. The amount of Sale Proceeds equals the Issue Price. The amount of Net Proceeds equals the Issue Price minus the amount of Proceeds (if any) deposited in the Reserve Fund (if any). The amount of Net Sale Proceeds equals the amount of Net Proceeds minus the Minor Portion.

2.60. Disposition of Sale Proceeds. There will be no Pre-Issuance Accrued Interest with respect to the Issue. The Sale Proceeds will be used to pay costs of the Project and, if applicable, to fund the Reserve Fund (if any).

2.70. Higher Yielding Investments. Gross Proceeds will not be invested in Higher Yielding Investments except for (A) the Minor Portion to the extent provided in 3.80, (B) those Gross Proceeds identified in 3.10, 3.20, and 3.30, but only during the applicable Temporary Periods there described for those Gross Proceeds, and (C) Gross Proceeds held in the Reserve Fund (if any) to the extent set forth in 3.40(a).

2.80. Single Issue. No other obligations have been or will be sold less than 15 days before or after the Sale Date pursuant to the same plan of financing with the Issue that are expected to be paid from substantially the same source of funds as the Issue, determined without regard to guarantees from a person who is not a Related Party to the Issuer. Accordingly, no obligations other than those of the Issue are a part of a single issue with the Issue.

III. ARBITRAGE (NONREBATE) MATTERS

3.10. Use of Net Sale Proceeds and Pre-Issuance Accrued Interest; Temporary Periods.

(A) Pre-Issuance Accrued Interest. There will be no Pre-Issuance Accrued Interest with respect to the Issue.

(B) Payment of Costs of the Project.

(1) All of the Net Sale Proceeds will be used to pay costs of the Project. Such Sale Proceeds may be used to acquire or hold Higher Yielding Investments for a period ending on the third anniversary of the Issuance Date (such period being the Temporary Period for such amount) because the following three tests are reasonably expected to be satisfied:

(i) At least 85% of the Net Sale Proceeds will be allocated to expenditures on the Project by the end of the Temporary Period;

(ii) Within 6 months of the Issuance Date, the Issuer will incur substantial binding obligations to third parties to expend at least 5% of the Net Sale Proceeds on the Project; and

(iii) Completion of the Project and allocation of the Net Sale Proceeds to expenditures will proceed with due diligence.

Any Sale Proceeds that remain unspent on the third anniversary of the Issuance Date, which is the expiration date of the Temporary Period for such Proceeds, shall not be invested in Higher Yielding Investments with respect to the Issue after that date except as part of the Minor Portion. In complying with the foregoing sentence, the Issuer may take into account "yield reduction payments" (within the meaning of Regulations §1.148-5(c)) paid to the United States.

(2) Any Reimbursement Allocation will qualify as a Reimbursement of Prior Capital Expenditures and will be made by an entry in the financial records of the Issuer kept with respect to the Issue showing that Sale Proceeds of the Issue have been returned to the fund or account of the Issuer from which such amount was originally and temporarily advanced to finance Capital Expenditures paid before this date by not more than (A) 18 months after the later of the date such Capital Expenditures were paid or the date on which the property resulting from such Capital Expenditures and comprising part of the Project was placed in service or (B) three years after the original expenditures were paid.

3.20. Investment Proceeds. Any Investment Proceeds will be used to pay costs of the Project and may be invested in Higher Yielding Investments during the Temporary Period identified in 3.10(B)(1) or, if longer, one year from the date of receipt, such period being the Temporary Period for such Proceeds.

3.30. Payment Fund. Amounts deposited from time to time in the fund of the Issuer from which payments will be made on the Issue, which is a Bona Fide Debt Service Fund, will be used to pay Debt Service on the Issue within 13 months after the amounts are so deposited, such period being the Temporary Period for such amounts.

3.40. Reserve Funds.

(A) Debt Service Reserve Fund. If (and only if) the Loan Agreement requires the funding of a debt service reserve fund ("Reserve Fund") in cash: The amount of Proceeds of the Loan deposited in the Reserve Fund shall not exceed

10% of the stated principal amount of the Loan. Amounts in the portion of the Reserve Fund allocable to the Issue may be invested in Higher Yielding Investments with respect to the Issue to the extent that such amounts do not exceed the least of (i) 10% of the principal amount of the Issue; (ii) maximum annual Debt Service; and (iii) 125% of average annual Debt Service. Any amounts in the portion of the Reserve Fund allocable to the Issue in excess of the least of these amounts will not be invested in Higher Yielding Investments with respect to the Issue. In complying with the yield restriction set forth in this Section, the Issuer may take into account "yield reduction payments" (within the meaning of Regulations § 1.148-5(c)) timely paid or to be timely paid to the United States because amounts in the Reserve Fund (other than investment earnings) are not reasonably expected to be used to pay Debt Service other than in connection with reductions in the amount required to be in the Reserve Account. The establishing and funding of the Reserve Fund was reasonably required by the Authority as a condition of making the Loan.

(B) Replacement Reserve Fund. If (and only if) the Loan Agreement requires the funding of a replacement reserve fund ("Replacement Reserve Fund") in cash: The Replacement Reserve Fund may be used for one or more of the following purposes: (i) the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property for the Issuer's utility system, provided that the property is depreciable; (ii) the performance of repairs with respect to the Issuer's utility system that are of an extraordinary and non-recurring nature, provided that the property is depreciable; (iii) the acquisition or construction of additions to or improvements, extensions or enlargements to, or remodeling of, the Issuer's utility system, provided that the property is depreciable; and/or (iv) to make Debt Service payments to the Authority on the Issue (collectively, the "Permitted Uses"). The Issuer reasonably expects to use amounts in the Replacement Reserve Fund for Permitted Uses other than to make Debt Service payments to the Authority on the Issue, and therefore there is no reasonable assurance of the availability of those amounts to make Debt Service payments to the Authority on the Issue if the Issuer encounters financial difficulties

3.50. No Other Replacement Fund or Assured Available Funds. Except as described in 3.30 and, if and to the extent applicable, 3.40(A), , the Issuer has not established and does not expect to establish or use any sinking fund, debt service fund, redemption fund, reserve or replacement fund, or similar fund, or any other fund to pay Debt Service on the Issue. Except for money referred to in 3.30 and Proceeds of a Refunding Issue, if any, no other money or Investment Property is or will be pledged as collateral or used for the payment of Debt Service on the Issue (or for the reimbursement of any others who may provide money to pay that Debt Service), or is or will be restricted, dedicated, encumbered, or set aside in any way as to afford the holders of the Issue reasonable assurance of the availability of such money or Investment Property to pay Debt Service on the Issue.

3.60. No Overissuance. The Proceeds of the Issue are not reasonably expected to exceed the amount needed for the governmental purposes of the Issue as set forth in 2.20.

3.70. Other Uses of Proceeds Negated. Except as stated otherwise in this Certificate, none of the Proceeds of the Issue will be used:

(A) to pay principal of or interest on, refund, renew, roll over, retire, or replace any other obligations issued by or on behalf of the Issuer or any other Governmental Unit,

(B) to replace any Proceeds of another issue that were not expended on the project for which such other issue was issued,

(C) to replace any money that was or will be used directly or indirectly to acquire Higher Yielding Investments,

(D) to make a loan to any person or other Governmental Unit,

(E) to pay any Working Capital Expenditure other than expenditures identified in Regulations §1.148-6(d)(3)(ii)(A) and (B) (i.e., Issuance Costs of the Issue, Qualified Administrative Costs, reasonable charges for a Qualified Guarantee or for a Qualified Hedge, interest on the Issue for a period commencing on the Issuance Date of the Issue and ending on the date that is the later of three years from such Issuance Date or one year after the date on which the project financed or refinanced by the Issue was or will be placed in service, payments of the Rebate Amount, and costs, other than those already described, that do not exceed 5% of the Sale Proceeds and that are directly related to Capital Expenditures financed or deemed financed by the Issue, principal or interest on an issue paid from unexpected excess Sale Proceeds or Investment Proceeds, and principal or interest on an issue paid from investment earnings on a reserve or replacement fund that are deposited in a Bona Fide Debt Service Fund), or

(F) to reimburse any expenditures made prior to the Issuance Date except those that qualify as a Reimbursement of Prior Capital Expenditures.

No portion of the Issue is being issued solely for the purpose of investing Proceeds in Higher Yielding Investments.

3.80. Minor Portion. The Minor Portion is equal to the lesser of 5% of the Sale Proceeds of the Issue and $100,000. Such Minor Portion may be invested in Higher Yielding Investments with respect to the Issue.

3.90. No Other Replacement Proceeds. That portion of the Issue that is to be used to finance Capital Expenditures has a weighted average maturity that does not exceed 120% of the weighted average reasonably expected economic life of the property resulting from such Capital Expenditures.

IV. REBATE MATTERS

4.10. Issuer Obligation Regarding Rebate. Consistently with its covenants contained in the Loan Agreement, the Issuer will calculate and make, or cause to be calculated and made, payments of the Rebate Amount in the amounts and at the times and in the manner provided in Section 148(f) with respect to Gross Proceeds to the extent not exempted under Section 148(f)(4) and the Instructions.

4.20. No Avoidance of Rebate Amount. No amounts that are required to be paid to the United States will be used to make any payment to a party other than the United States through a transaction or a series of transactions that reduces the amount earned on any Investment Property or that results in a smaller profit or a larger loss on any Investment Property than would have resulted in an arm's length transaction in which the Yield on the Issue was not relevant to either party to the transaction.

4.30. Exceptions.

(A) Small Issuer Exception. The Issue is exempt under Section 148(f)(4)(D) from the rebate requirement **if all** of the following requirements are satisfied:

(1) The Issuer is a Governmental Unit with general taxing powers within the meaning of Section 148(f)(4)(D), and

(2) No part of the Issue is a Private Activity Bond, and

(3) All of the Net Proceeds will be used for "local governmental activities" of the Issuer within the meaning of Section 148(f)(4)(D) and none of the Net Proceeds will be used for any Private Business Use, and

(4) The aggregate principal amount of all Tax-Exempt Obligations, including the Issue, issued or to be issued by the Issuer, its subordinate entities and entities that issue any such obligations on behalf of the Issuer, or on behalf of which the Issuer issues any such obligations, during the current calendar year does not, and is not reasonably expected to, exceed $5,000,000. The Tax-Exempt Obligations taken into account for this purpose exclude any Private Activity Bonds and any Current Refunding Portion and Current Refunding Issue to the extent that the amount of such Current Refunding Portion or Current Refunding Issue does not exceed the outstanding amount of the obligations refunded by such Current Refunding Portion or Current Refunding Issue. No entity has been or will be formed or availed of to avoid the purposes of Section 148(f)(4)(D)(i)(IV).

If, but only if, all of the above requirements are satisfied, check here: [____]

and sign here: ______________________________

(B) General Exception. Notwithstanding the foregoing, the computations and payments of amounts to the United States referred to in IV need not be made to the extent that the Issuer will not thereby fail to comply with any requirements of Section 148(f) and the Instructions based on an opinion of bond counsel.

4.40. Election. The Issue is a Construction Issue. The Issuer hereby elects to apply the 2-year spending exception to the rebate requirements on the basis of actual facts instead of the Issuer's reasonable expectations.

V. OTHER TAX MATTERS

5.10. Not Private Activity Bonds or Pooled Bonds. No obligation of the Issue will be a Private Activity Bond or a pooled financing bond (within the meaning of Section 149(f)), based on the following:

(A) Not more than 5% of the Proceeds, if any, directly or indirectly, will be used for a Private Business Use and not more than 5%, if any, of the Debt Service on the Issue, directly or indirectly, will be secured by any interest in property used or to be used for a Private Business Use or payments in respect of such property, or will be derived from payments (whether or not to the Issuer) in respect of property, or borrowed money, used or to be used for a Private Business Use.

(B) Less than 5% of the Proceeds, if any, will be used to make or finance loans to any Private Person or Governmental Unit other than the Issuer.

(C) None of the Proceeds will be used with respect to an "output facility" (other than a facility for the furnishing of water) within the meaning of Section 141(b)(4).

(D) The Issuer does not expect to sell or otherwise dispose of the Project or any portion thereof during the term of the Issue except for dispositions of property in the normal course at the end of such property's useful life to the Issuer. With respect to tangible personal property, if any, that is part of the Project, the Issuer reasonably expects that:

(1) Dispositions of such tangible personal property, if any, will be in the ordinary course of an established governmental program;

(2) The weighted average maturity of the obligations of the Issue financing such property (treating the obligations of the Issue properly allocable to such personal property as a separate issue for this purpose) will not be greater than 120% of the reasonably expected actual use of such property for governmental purposes;

(3) The fair market value of such property on the date of disposition will not be greater than 25% of its cost;

(4) The property will no longer be suitable for its governmental purposes on the date of disposition; and

(5) The amounts received from any disposition of such property are required to be, and will be, commingled with substantial tax or other governmental

revenues and will be spent on governmental programs within 6 months from the date of such deposit and commingling.

5.20. Issue Not Federally Guaranteed. The Issue is not Federally Guaranteed.

5.30. Not Hedge Bonds. At least 85% of the Spendable Proceeds will be used to carry out the governmental purposes of the Issue within three years from the Issuance Date. Not more than 50%, if any, of the Proceeds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more (including but not limited to any investment contract or fixed yield investment having a maturity of four years or more). The reasonable expectations stated above are not based on and do not take into account (A) any expectations or assumptions as to the occurrence of changes in market interest rates or changes of federal tax law or regulations or rulings thereunder or (B) any prepayments of items other than items that are customarily prepaid.

5.40. Hedge Contracts. The Issuer has not entered into, and does not reasonably expect to enter into, any Hedge with respect to the Issue, or any portion thereof. The Issuer acknowledges that entering into a Hedge with respect to the Issue, or any portion thereof, may change the Yield and that Bond Counsel should be contacted prior to entering into any Hedge with respect to the Issue in order to determine whether payments/receipts pursuant to the Hedge will be taken into account in computing the Yield.

5.50. Internal Revenue Service Information Return. Within the time and on the form prescribed by the Internal Revenue Service under Section 149(e), the Issuer will file with the Internal Revenue Service an Information Return setting forth the required information relating to the Issue. The information reported on that Information Return will be true, correct, and complete to the best of the knowledge and belief of the undersigned.

5.60. Responsibility of Officer.

(A) The officer signing this Certificate is one of the officers of the Issuer responsible for issuing the Issue.

(B) To the best of the knowledge, information, and belief of the undersigned, all expectations stated in this Certificate are the expectations of the Issuer and are reasonable, all facts stated are true, and there are no other existing facts, estimates, or circumstances that would or could materially change the statements made in this Certificate. The certifications and representations made in this Certificate are intended to be relied upon as certifications described in Regulations § 1.148-2(b). The Issuer acknowledges that any change in the facts or expectations from those set forth in this Certificate may result in different requirements or a change in status of the Issue or interest thereon under the Code, and that bond counsel should be contacted if such changes are to occur or have occurred.

Town of Chino Valley

By:______________________________

Name:____________________________

Title:_____________________________

List of Attachments

Attachment A

Definitions for Tax Compliance Certificate of Local Borrower

The following terms, as used in Attachment A and in the Tax Compliance Certificate to which it is attached and in the other Attachments to the Tax Compliance Certificate, have the following meanings unless therein otherwise defined or unless a different meaning is indicated by the context in which the term is used. Capitalized terms used within these definitions that are not defined in Attachment A have the meanings ascribed to them in the Tax Compliance Certificate to which this Attachment A is attached. The word "Issue," in lower case, refers either to the Issue or to another issue of obligations or portion thereof treated as a separate issue for the applicable purposes of Section 148, as the context requires. The word "obligation" or "obligations," in lower case, includes any obligation, whether in the form of bonds, notes, certificates, or any other obligation that is a "bond" within the meaning of Section 150(a)(1). All capitalized terms used in this Certificate include either the singular or the plural. All terms used in this Attachment A or in the Tax Compliance Certificate to which this Attachment A is attached, including terms specifically defined, shall be interpreted in a manner consistent with Sections 103 and 141-150 and the applicable Regulations thereunder except as otherwise specified. All references to Section, unless otherwise noted, refer to the Code.

"Advance Refunding Issue" means any Refunding Issue that is not a Current Refunding Issue.

"Advance Refunding Portion" means that portion of a Multipurpose Issue that constitutes a separate governmental purpose and that would be treated as an Advance Refunding Issue if it had been issued as a separate issue.

"AMT Obligation" means a Tax-Exempt Obligation the interest on which is an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code.

"Available Construction Proceeds" means an amount equal to (a) the sum of (i) the Issue Price of an issue, (ii) Investment Proceeds on that Issue Price, (iii) earnings on any reasonably required reserve or replacement fund allocable to the issue not funded from the Issue Price, and (iv) Investment Proceeds and earnings on (ii) and (iii), (b) reduced by the portions, if any, of the Issue Price of the issue (i) attributable to Pre-Issuance Accrued Interest and earnings thereon, (ii) allocable to the underwriter's discount, (iii) used to pay other Issuance Costs of the issue, and (iv) deposited in a reasonably required reserve or replacement fund allocable to the issue. "Available Construction Proceeds" does not include Investment Proceeds or earnings on a reasonably required reserve or replacement fund allocable to the issue for any period after the earlier of (a) the close of the 2-year period that begins on the Issuance Date or (b) the date the construction of the project financed by the issue is substantially completed, provided, however, that such Investment Proceeds or earnings shall be excluded from "Available Construction Proceeds" if the Issuer has timely elected such exclusion. If an issue is a Multipurpose Issue that includes a New Money Portion that is a Construction Issue, this definition shall be applied by substituting "New Money Portion" for "issue" each place the latter term appears. If an issue or the New Money Portion of a Multipurpose Issue, as applicable, is not a Construction Issue, and the Issuer makes the bifurcation election under Regulations §1.148-7(j)(1) and Section 148(f)(4)(C)(v) to treat the issue or the New Money Portion as two separate issues consisting of the Construction Portion and the Nonconstruction Portion, this definition shall be applied by substituting "Construction Portion" for "issue" each place the latter term appears.

"Bona Fide Debt Service Fund" means a fund, including a portion of or an account in that fund (or in the case of a fund established for two or more issues, the portion of that fund properly allocable to an issue), or a combination of such funds, accounts or portions that is used primarily to achieve a proper matching of revenues with Debt Service on an issue within each Bond Year and that is depleted at least once each year except for a reasonable carryover amount not to exceed the greater of the earnings thereon for the immediately preceding Bond Year or one-twelfth of the annual Debt Service on the issue for the immediately preceding Bond Year.

"Bond Year" means the annual period relevant to the application of Section 148(f) to an issue, except that the first and last Bond Years may be less than 12 months long. The last day of a Bond Year shall be the close of business on the day preceding the anniversary of the Issuance Date of an issue unless the Issuer selects another date on which to end a Bond Year in the manner permitted by the Code.

"Capital Expenditures" means costs of a type that are properly chargeable to a capital account (or would be so chargeable with a proper election or with the application of the definition of Placed in Service) under general federal income tax principles.

"Code" means the Internal Revenue Code of 1986, the Regulations (whether temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section of the Code includes any applicable successor section or provision and such applicable Regulations, rulings, announcements, notices, procedures and determinations pertinent to that Section.

"Commingled Fund" means any fund or account of the Issuer that contains both Gross Proceeds of an issue and amounts in excess of $25,000 that are not Gross Proceeds of the issue if the amounts in the fund or account are invested and accounted for collectively, without regard to the source of funds deposited in the fund or account.

"Commingled Investment Proceeds" means Investment Proceeds of an issue (other than Investment Proceeds held in a Refunding Escrow) that are deposited in a Commingled Fund with substantial tax or other revenues from governmental operations of the Issuer and that are reasonably expected to be spent for governmental purposes within 6 months from the date of deposit in the Commingled Fund, using any reasonable accounting assumptions.

"Conduit Borrower" means the obligor on a purpose investment.

"Conduit Financing Issue" means an issue the Proceeds of which are reasonably expected to be used to finance one or more Conduit Loans.

"Conduit Loan" means a purpose investment acquired by the Issuer with Proceeds of a Conduit Financing Issue, thereby effecting a loan to the Conduit Borrower.

"Construction Expenditures" means Capital Expenditures allocable to the cost of real property (including the construction or making of improvements to real property, but excluding acquisitions of interests in land or other existing real property) or constructed personal property within the meaning of Regulations §1.148-7(g).

"Construction Issue" means an issue at least 75% of the Available Construction Proceeds of which are to be used for Construction Expenditures with respect to property that is, or upon completion will be, owned by a Governmental Unit or a 501(c)(3) Organization. If an issue is a Multipurpose Issue that includes a New Money Portion, this definition shall be applied by substituting "New Money Portion" for "Construction Issue" each place the latter term appears. If an election under Section 148(f)(4)(C)(v) and Regulations §1.148-7(j) is made to bifurcate an issue or the New Money Portion of a Multipurpose Issue, this definition shall be applied by substituting "Construction Portion" for "Construction Issue" each place the latter term appears.

"Construction Portion" means that portion of an issue or the New Money Portion of a Multipurpose Issue at least 75% of the Available Construction Proceeds of which are to be used for Construction Expenditures with respect to property that is, or upon completion will be, owned by a Governmental Unit or a 501(c)(3) Organization and that finances 100% of the Construction Expenditures.

"Controlled Group" means a group of entities controlled directly or indirectly by the same entity or group of entities within the meaning of Regulations §1.150-1(e).

"Current Refunding Issue" means a Refunding Issue that is issued not more than 90 days before the last expenditure of any Proceeds of the Refunding Issue for the payment of Debt Service on the Refunded Bonds.

"Current Refunding Portion" means that portion of a Multipurpose Issue that constitutes a separate governmental purpose and that would be treated as a Current Refunding Issue if it had been issued as a separate issue.

"Debt Service" means principal of and interest and any redemption premium on an issue.

"Excess Gross Proceeds" means all Gross Proceeds of an Advance Refunding Issue that exceed an amount equal to 1% of the Sale Proceeds of such Advance Refunding Issue, other than Gross Proceeds allocable to: (a) payment of Debt Service on the Refunded Bonds; (b) payment of Pre-Issuance Accrued Interest on the Advance Refunding Issue and interest on the Advance Refunding Issue that accrues for a period up to the completion date of any capital project financed by the Prior Issue, plus one year; (c) a reasonably required reserve or replacement fund for the Advance Refunding Issue or Investment Proceeds of such fund; (d) payment of Issuance Costs of the Advance Refunding Issue; (e) payment of administrative costs allocable to repaying the Refunded Bonds, carrying and repaying the Advance Refunding Issue, or investments of the Advance Refunding Issue;

(f) Transferred Proceeds allocable to expenditures for the governmental purpose of the Prior Issue (treating for this purpose all unspent Proceeds of the Prior Issue properly allocable to the Refunded Bonds as of the Issuance Date of the Advance Refunding Issue as Transferred Proceeds); (g) interest on purpose investments; (h) Replacement Proceeds in a sinking fund for the Advance Refunding Issue; and (i) fees for a Qualified Guarantee for the Advance Refunding Issue or the Prior Issue. If an Issue is a Multipurpose Issue that includes an Advance Refunding Portion, this definition shall be applied by substituting "Advance Refunding Portion" for "Advance Refunding Issue" each place the latter term appears.

"Federally Guaranteed" means that (a) the payment of Debt Service on an issue, or the payment of principal or interest with respect to any loans made from the Proceeds of the issue, is directly or indirectly guaranteed in whole or in part by the United States or by an agency or instrumentality of the United States, within the meaning of Section 149(b) of the Code, or (b) more than 5% of the Proceeds of an issue will be invested directly or indirectly in federally insured deposits or accounts. The preceding sentence does not apply to (a) Proceeds invested during an initial Temporary Period until such Proceeds are needed to pay costs of the project, (b) investments of a Bona Fide Debt Service Fund, (c) direct purchases from the United States of obligations issued by the United States Treasury, or (d) other investments permitted by Section 149(b) or Regulations §1.149(b)-1(b).

"501(c)(3) Organization" means an organization described in Section 501(c)(3) and exempt from tax under Section 501(a).

"Fixed Yield Issue" means an issue of obligations the Yield on which is fixed and determinable on the Issuance Date.

"Governmental Unit" means a state, territory or possession of the United States, the District of Columbia, or any political subdivision thereof referred to as a "State or local governmental unit" in Regulations §1.103-1(a). "Governmental Unit" does not include the United States or any agency or instrumentality of the United States.

"Gross Proceeds" means Proceeds and Replacement Proceeds of an issue.

"Hedge" means a contract entered into by the Issuer or the Conduit Borrower primarily to modify the Issuer's or the Conduit Borrower's risk of interest rate changes with respect to an obligation (e.g., an interest rate swap, an interest rate cap, a futures contract, a forward contract or an option).

"Higher Yielding Investments" means any Investment Property that produces a Yield that (a) in the case of Investment Property allocable to Replacement Proceeds of an issue and Investment Property in a Refunding Escrow, is more than one thousandth of one percentage point (.00001) higher than the Yield on the applicable issue, and (b) for all other purposes is more than one-eighth of one percentage point (.00125) higher than the Yield on the issue.

"Investment Proceeds" means any amounts actually or constructively received from investing Proceeds of an issue in Investment Property.

"Investment Property" means investment property within the meaning of Sections 148(b)(2) and 148(b)(3), including any security (within the meaning of Section 165(g)(2)(A) or (B)), any obligation, any annuity contract and any other investment-type property (including certain residential rental property for family units as described in Section 148(b)(2)(E) in the case of any bond other than a Private Activity Bond). Investment Property includes a Tax-Exempt Obligation that is a "specified private activity bond" as defined in Section 57(a)(5)(C), but does not include other Tax-Exempt Obligations.

"Issuance Costs" means costs to the extent incurred in connection with, and allocable to, the issuance of an issue, and includes underwriter's compensation withheld from the Issue Price, counsel fees, financial advisory fees, rating agency fees, trustee fees, paying agent fees, bond registrar, certification and authentication fees, accounting fees, printing costs for bonds and offering documents, public approval process costs, engineering and feasibility study costs, guarantee fees other than for a Qualified Guarantee and similar costs, but does not include fees charged by the Issuer.

"Issuance Date" means the date of physical delivery of an issue by the Issuer in exchange for the purchase price of the issue.

"Issue Price" means in the circumstances applicable to an issue:

(1) Public Offering. In the case of obligations actually offered to the general public in a bona fide public offering at the initial offering price for each maturity set forth in the certificate of the underwriter or placement agent attached to the Tax Compliance Certificate of the Issuer, the aggregate of the initial offering price for each maturity (including any Pre-Issuance Accrued Interest and original issue premium, but excluding any original issue discount), which price is not more than the fair market value thereof as of the Sale Date, and at which initial offering price not less than 10% of the principal amount of each maturity, as of the Sale Date, was sold or reasonably expected to be sold (other than to bond houses, brokers or other intermediaries). In the case of publicly offered obligations that are not described in the preceding sentence, Issue Price means the aggregate of the initial offering price to the public of each maturity set forth in the certificate of the underwriter or placement agent attached to the Tax Compliance Certificate of the Issuer, which price is not more than the fair market value thereof as of the Sale Date, and at which initial offering price not less than 10% of the principal amount of each maturity was sold to the public.

(2) Private Placement. In the case of obligations sold by private placement, the aggregate of the prices (including any Pre-Issuance Accrued Interest and original issue premium, but excluding any original issue discount) paid to the Issuer by the first purchaser(s) (other than bond houses, brokers or other intermediaries).

"Minor Portion" means an amount equal to the lesser of $100,000 or 5% of the Sale Proceeds of an issue.

"Multipurpose Issue" means an issue the bonds of which are allocable to two or more separate governmental purposes within the meaning of Regulations §1.148-9(h).

"Net Proceeds" means the Sale Proceeds of an issue less the portion thereof, if any, deposited in a reasonably required reserve or replacement fund for the issue.

"Net Sale Proceeds" means the Sale Proceeds of an issue less the portion thereof, if any, deposited in a reasonably required reserve or replacement fund for the issue and the portion invested as a part of a Minor Portion for the issue.

"New Money Issue" means an issue that is not a Refunding Issue.

"New Money Portion" means that portion of a Multipurpose Issue other than the Refunding Portion.

"Nonpurpose Investments" means any Investment Property that is acquired with Gross Proceeds as an investment and not in carrying out any governmental purpose of an issue. "Nonpurpose Investments" does not include any investment that is not regarded as "investment property" or a "nonpurpose investment" for the particular purposes of Section 148 (such as certain investments in U.S. Treasury obligations in the State and Local Government Series and certain temporary investments), but does include any other investment that is a "nonpurpose investment" within the applicable meaning of Section 148.

"Placed in Service" means the date on which, based on all the facts and circumstances, a facility has reached a degree of completion that would permit its operation at substantially its design level and the facility is, in fact, in operation at such level.

"Pre-Issuance Accrued Interest" means interest on an obligation that accrued for a period not greater than one year before its Issuance Date and that will be paid within one year after such Issuance Date.

"Preliminary Expenditures" means any Capital Expenditures that are "preliminary expenditures" within the meaning of Regulations §1.150-2(f)(2), i.e., architectural, engineering, surveying, soil testing, reimbursement bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction, or rehabilitation of a project other than land acquisition, site preparation, and similar costs incident to commencement of construction. The aggregate amount of Preliminary Expenditures may not exceed 20% of the aggregate Issue Price of the issue or issues that financed or are reasonably expected to finance the project for which such Preliminary Expenditures are or were incurred.

"Prior Issue" means an issue of obligations all or a portion of the Debt Service on which is paid or provided for with Proceeds of a Refunding Issue. The Prior Issue may be a Refunding Issue.

"Private Activity Bond" means (a) obligations of an issue more than 10% of the Proceeds of which, directly or indirectly, are or are to be used for a Private Business Use and more than 10% of the Debt Service on which, directly or indirectly, is or is to be paid from or secured by payments with respect to property, or secured by property, used for a Private Business Use, or (b) obligations of an issue, the Proceeds of which are or are to be used to make or finance loans to any Private Person that, in the aggregate, exceed the lesser of 5% of such Proceeds or $5,000,000. In the event of Unrelated or Disproportionate Use, the tests in (a) shall be applied by substituting 5% for 10% each place the latter term is used.

"Private Business Use" means use (directly or indirectly) in a trade or business carried on by any Private Person other than use as a member of, and on the same basis as, the general public. Any activity carried on by a Private Person (other than a natural person) shall be treated as a trade or business. In the case of a Qualified 501(c)(3) Bond, Private Business Use excludes use by a 501(c)(3) Organization that is not an unrelated trade or business activity by such 501(c)(3) Organization within the meaning of Section 513(a).

"Private Person" means any natural person or any artificial person, including a corporation, partnership, trust or other entity, other than a Governmental Unit. "Private Person" includes the United States and any agency or instrumentality of the United States.

"Proceeds" means any Sale Proceeds, Investment Proceeds, and Transferred Proceeds of an issue. "Proceeds" does not include Replacement Proceeds.

"Qualified Administrative Costs" means reasonable direct administrative costs (other than carrying costs) such as separately stated brokerage or selling commissions, but not legal and accounting fees, recordkeeping, custody and similar costs. General overhead costs and similar indirect costs of the Issuer such as employee salaries and office expenses and costs associated with computing the Rebate Amount are not Qualified Administrative Costs.

"Qualified 501(c)(3) Bonds" means an issue of obligations that satisfies the requirements of Section 145(a).

"Qualified Guarantee" means any guarantee of an obligation that constitutes a "qualified guarantee" within the meaning of Regulations §1.148-4(f).

"Qualified Hedge" means a Hedge that is a "qualified hedge" within the meaning of Regulations §1.148-4(h)(2).

"Rebate Amount" means the excess of the future value, as of any date, of all receipts on Nonpurpose Investments acquired with Gross Proceeds of an issue over the future value, as of that date, of all payments on those Nonpurpose Investments, computed in accordance with Section 148(f) and Regulations §1.148-3.

"Refunded Bonds" means obligations of a Prior Issue the Debt Service on which is or is to be paid from Proceeds of a Refunding Issue.

"Refunding Bonds" means obligations of a Refunding Issue.

"Refunding Issue" means an issue the Proceeds of which are or are to be used to pay Debt Service on Refunded Bonds and includes Issuance Costs, Pre-Issuance Accrued Interest or permitted capitalized interest, a reasonably required reserve or replacement fund and similar costs of the Refunding Issue.

"Refunding Escrow" means one or more funds established as part of a single transaction, or a series of related transactions, containing Proceeds of a Refunding Issue and any other amounts to be used to pay Debt Service on Refunded Bonds of one or more issues.

"Refunding Portion" means that portion of a Multipurpose Issue the Proceeds of which are, or are to be, used to pay Debt Service on Refunded Bonds and includes Issuance Costs, Pre-Issuance Accrued Interest or permitted capitalized interest, a reasonably required reserve or replacement fund and similar costs properly allocable to the Refunding Portion.

"Regulations" or "Reg." means Treasury Regulations.

"Reimbursement Allocation" means an allocation of the Proceeds of an issue for the Reimbursement of Prior Capital Expenditures, other than Preliminary Expenditures, that meets each of the following requirements: (a) is evidenced on the books or records of the Issuer maintained with respect to the issue, (b) the allocation entry identifies either actual prior Capital Expenditures, or the fund or account from which the prior Capital Expenditures were paid, and (c) evidences the Issuer's use of Proceeds of the issue to reimburse a Capital Expenditure for a governmental purpose that was originally paid from a source other than the Proceeds of the issue.

"Reimbursement of Prior Capital Expenditures" means a Reimbursement Allocation of Proceeds of the Issue to a Capital Expenditure paid prior to the Issuance Date of such Issue, that satisfies the following requirements: (a) the Capital Expenditure was paid after March 1, 1992; (b) prior to, or within 60 days after, payment of the Capital Expenditure (except Preliminary Expenditures), the Issuer adopted an official intent for the Capital Expenditure that satisfies Regulations §1.150-2(e); and (c) except for Preliminary Expenditures, the Reimbursement Allocation occurs or will occur within 18 months after the later of the date the Capital Expenditure was paid or the date the project resulting from such Capital Expenditure was Placed in Service or abandoned, but in no event more than 3 years after the Capital Expenditure was paid.

"Related Party" means, in reference to a Governmental Unit or 501(c)(3) Organization, any member of the same Controlled Group and, in reference to any person that is not a Governmental Unit or 501(c)(3) Organization, a "related person" as defined in Section 144(a)(3) of the Code.

"Replacement Proceeds" means, with respect to an issue, amounts (including any investment income, but excluding any Proceeds of any issue) replaced by Proceeds of that issue within the meaning of Section 148(a)(2). "Replacement Proceeds" includes amounts, other than Proceeds, held in a sinking fund, pledged fund or reserve or replacement fund for an issue.

"Sale Date" means, with respect to an issue, the first date on which there is a binding contract in writing with the Issuer for the sale and purchase of an issue (or of respective obligations of the issue if sold by the Issuer on different dates) on specific terms that are not later modified or adjusted in any material respect.

"Sale Proceeds" means that portion of the Issue Price actually or constructively received by the Issuer upon the sale or other disposition of an issue, including any underwriter's compensation withheld from the Issue Price, but excluding Pre-Issuance Accrued Interest.

"Spendable Proceeds" means the Net Sale Proceeds of an issue.

"Tax-Exempt Obligation" means any obligation or issue of obligations (including bonds, notes and lease obligations treated for federal income tax purposes as evidences of indebtedness) the interest on which is excluded from gross income for federal income tax purposes within the meaning of Section 150, and includes any obligation or any investment treated as a "tax-exempt bond" for the applicable purpose of Section 148.

"Tax-Exempt Organization" means a Governmental Unit or a 501(c)(3) Organization.

"Temporary Period" means the period of time, as set forth in the Tax Compliance Certificate, applicable to particular categories of Proceeds of an issue during which such category of Proceeds may be invested in Higher Yielding Investments without the issue being treated as arbitrage bonds under Section 148.

"Transferred Proceeds" means that portion of the Proceeds of an issue (including any Transferred Proceeds of that issue) that remains unexpended at the time that any portion of the principal of the Refunded Bonds of that issue is discharged with the Proceeds of a Refunding Issue and that thereupon becomes Proceeds of the Refunding Issue as provided in Regulations §1.148-9(b). "Transferred Proceeds" does not include any Replacement Proceeds.

"Unrelated or Disproportionate Use" means Private Business Use that is not related to or is disproportionate to use by a Governmental Unit within the meaning of Section 141(b)(3) and Regulations §1.141-9.

"Variable Yield Issue" means any Issue that is not a Fixed Yield Issue.

"Working Capital Expenditures" means any costs of a type that do not constitute Capital Expenditures, including current operating expenses.

"Yield" has the meaning assigned to it for purposes of Section 148 of the Code, and means that discount rate (stated as an annual percentage) that, when used in computing the present worth of all applicable unconditionally payable payments of Debt Service, all payments for a Qualified Guarantee, if any, and all payments and receipts with respect to a Qualified Hedge, if any, paid and to be paid with respect to an obligation (paid and to be paid during and attributable to the Yield Period in the case of a Variable Yield Issue), produces an amount equal to (a) the Issue Price in the case of a Fixed Yield Issue or the present value of the Issue Price at the commencement of the applicable Yield Period in the case of a Variable Yield Issue, or (b) the purchase price for yield purposes in the case of Investment Property, all subject to the applicable methods of computation provided for under Section 148, including variations from the foregoing. The Yield on Investment Property in which Proceeds or Replacement Proceeds of an issue are invested is computed on a basis consistent with the computation of Yield on that issue, including the same compounding interval of not more than one year selected by the Issuer.

"Yield Period" means, in the case of the first Yield Period, the period that commences on the Issuance Date and ends at the close of business on the first Computation Date and, in the case of each succeeding Yield Period, the period that begins immediately after the end of the immediately preceding Yield Period and ends at the close of business on the next succeeding Computation Date.

The terms "bond", "obligation", "reasonably required reserve or replacement fund", "reserve or replacement fund", "loan", "sinking fund", "purpose investment", "same plan of financing", "other replacement proceeds", and other terms relating to Code provisions used but not defined in this Certificate shall have the meanings given to them for purposes of Sections 103 and 141 to 150 unless the context indicates another meaning.

(End of Attachment A)

ATTACHMENT A-1 RIDER

INSTRUCTIONS FOR COMPLIANCE WITH REBATE REQUIREMENTS OF SECTION 148(f) OF THE CODE
(Governmental Use Bonds)

The Issuer covenanted in the Loan Agreement and Tax Compliance Certificate to comply with the arbitrage rebate requirement of Section 148(f) of the Code. These Instructions for Compliance with Rebate Requirements of Section 148(f) of the Code (these "Instructions") provide guidance for that compliance, including the spending exceptions that free the Issue from all or part of the rebate requirements. Capitalized terms that are not defined in these Rebate Instructions are defined in Attachment A to the Tax Compliance Certificate.

<u>PART I: GENERAL</u>

SECTION 1.01. <u>REBATE GENERALLY</u>.

The Rebate Amount with respect to the Issue must be paid (rebated) to the United States to prevent the bonds of the Issue from being arbitrage bonds, the interest on which is subject to federal income tax. In general, the Rebate Amount is the amount by which the actual earnings on Nonpurpose Investments purchased (or deemed to have been purchased) with Gross Proceeds of the Issue exceed the amount of earnings that would have been received if those Nonpurpose Investments had a Yield equal to the Yield on the Issue.[1] Stated differently, the Rebate Amount for the Issue as of any date is the excess of the Future Value, as of that date, of all Receipts on Nonpurpose Investments over the Future Value, as of that date, of all Payments on Nonpurpose Investments, computed using the Yield on the Issue as the Future Value rate.[2]

If the Issue is a Fixed Yield Issue, the Yield on the Issue generally is the Yield to maturity, taking into account mandatory redemptions prior to maturity. If the Issue is a Variable Yield Issue, the Yield on the Issue is computed separately for each Yield Period selected by the Issuer.

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[1] Amounts earned on the Bona Fide Debt Service Fund for the Issue are not taken into account in determining the Rebate Amount: (1) for any Bond Year in which the gross earnings on such Fund for such Year are less than $100,000; (2) if the average annual Debt Service on the Issue does not exceed $2,500,000; or (3) if none of the obligations of the Issue are Private Activity Bonds, the rates of interest on the Issue do not vary and the average maturity of the Issue is at least five years.

[2] The scope of these Instructions does not permit a detailed description of the computation of the Rebate Amount with respect to the Issue.

PART II: EXCEPTIONS TO REBATE

SECTION 2.01. SPENDING EXCEPTIONS.

The rebate requirements with respect to the Issue are deemed to have been satisfied if any one of three spending exceptions (the 6-Month, the 18-Month, or the 2-Year Spending Exception, collectively, the "Spending Exceptions") is satisfied. The Spending Exceptions are each independent exceptions. The Issue need not meet the requirements of any other exception in order to use any one of the three exceptions. For example, a Construction Issue may qualify for the 6-Month Spending Exception or the 18-Month Spending Exception even though the Issuer makes one or more elections under the 2-Year Exception with respect to the Issue.

The following rules apply for purposes of all of the Spending Exceptions except as otherwise noted.

Refunding Issues. The only spending exception available for a Refunding Issue[3] is the 6-Month Spending Exception.

Special Transferred Proceeds Rules. In applying the Spending Exceptions to a Refunding Issue, unspent Proceeds of the Prior Issue that become Transferred Proceeds of the Refunding Issue are ignored. If the Prior Issue satisfies one of the rebate Spending Exceptions, the Proceeds of the Prior Issue that are excepted from rebate under that exception are not subject to rebate either as Proceeds of the Prior Issue or as Transferred Proceeds of the Refunding Issue.

However, if the Prior Issue does not satisfy any of the Spending Exceptions and is not otherwise exempt from rebate, the Transferred Proceeds from the Prior Issue will be subject to rebate, even if the Refunding Issue satisfies the 6-Month Spending Exception. The Rebate Amount will be calculated on the Transferred Proceeds on the basis of the Yield of the Prior Issue up to each transfer date and on the basis of the Yield of the Refunding Issue after each transfer date.

Application of Spending Exceptions to a Multipurpose Issue. If the Issue is a Multipurpose Issue, the Refunding Portion and the New Money Portion are treated for purposes of the rebate Spending Exceptions as separate issues. Thus, the Refunding Portion is eligible to use only the 6-Month Spending Exception. The New Money Portion is eligible to use any of the three Spending Exceptions.

Expenditures for Governmental Purposes of the Issue. Each of the spending exceptions requires that expenditures of Gross Proceeds be for the governmental purposes of the Issue. These purposes include payment of interest (but not principal) on the Issue.

3. For purposes of these Instructions, references to "Refunding Issue" include the Refunding Portion of a Multipurpose Issue.

SECTION 2.02. 6-MONTH SPENDING EXCEPTION.

The Issue will be treated as satisfying the rebate requirements if all of the Gross Proceeds of the Issue are allocated to expenditures for the governmental purposes of the Issue within the 6-month period beginning on the Issuance Date and the Rebate Amount, if any, with respect to earnings on amounts deposited in a reasonably required reserve or replacement fund or a Bona Fide Debt Service Fund if and to the extent that such Fund is subject to rebate (see footnote 1) is timely paid to the United States. If no bond of the Issue is a Private Activity Bond (other than a Qualified 501(c)(3) Bond) or a tax or revenue anticipation bond, the 6-month period is extended for an additional 6 months if the unexpended Gross Proceeds of the Issue at the end of the 6-month period do not exceed the lesser of 5% of the Proceeds of the Issue.

For purposes of the 6-Month Spending Exception, Gross Proceeds required to be spent within 6 months do not include amounts in a reasonably required reserve or replacement fund for the Issue or in a Bona Fide Debt Service Fund for the Issue.

SECTION 2.03. 18-MONTH SPENDING EXCEPTION.

The Issue (or the New Money Portion if the Issue is a Multipurpose Issue) is treated as satisfying the rebate requirement if the conditions set forth in (A), (B) and (C) are satisfied.

(A) All of the Gross Proceeds of the Issue (excluding amounts in a reasonably required reserve or replacement fund for the Issue or in a Bona Fide Debt Service Fund for the Issue) are allocated to expenditures for the governmental purposes of the Issue in accordance with the following schedule, measured from the Issuance Date:

(1) at least 15% within 6 months;

(2) at least 60% within 12 months; and

(3) 100% within 18 months, subject to the Reasonable Retainage exception described below.

(B) The Rebate Amount, if any, with respect to earnings on amounts deposited in a reasonably required reserve or replacement fund or in a Bona Fide Debt Service Fund for the Issue, to the extent such Fund is subject to rebate (see footnote 1), is timely paid to the United States.

(C) The Gross Proceeds of the Issue qualify for the initial 3-year Temporary Period.

If the only unspent Gross Proceeds at the end of the 18th month are Reasonable Retainage, the requirement that 100% of the Gross Proceeds be spent by the end of the 18th month is treated as met if the Reasonable Retainage, and all earnings thereon, are spent for the governmental purposes of the Issue within 30 months of the Issuance Date.

For purposes of determining whether the spend-down requirements have been met as of the end of each of the first two spending periods, the amount of Investment Proceeds that the Issuer reasonably expects as of the Issuance Date to earn on the Sale Proceeds and Investment Proceeds of the Issue during the 18-month period are included in Gross Proceeds of the Issue. The final spend-down requirement includes actual Investment Proceeds for the entire 18 months.

The 18-Month Spending Exception does not apply to the Issue (or the New Money Portion, as applicable) if any portion of the Issue (or New Money Portion) is treated as meeting the rebate requirement under the 2-Year Spending Exception discussed below. This rule prohibits use of the 18-Month Spending Exception for the Nonconstruction Portion of a Bifurcated Issue. The only Spending Exception available for the Nonconstruction Portion of a Bifurcated Issue is the 6-Month Spending Exception.

SECTION 2.04. <u>2-YEAR SPENDING EXCEPTION FOR CERTAIN CONSTRUCTION ISSUES</u>.

(A) <u>In general</u>. A Construction Issue no bond of which is a Private Activity Bond (other than a Qualified 501(c)(3) Bond or a Bond that finances property to be owned by a Governmental Unit or a 501(c)(3) Organization) is treated as satisfying the rebate requirement if the Available Construction Proceeds of the Issue are allocated to expenditures for the governmental purposes of the Issue in accordance with the following schedule, measured from the Issuance Date:

(1) at least 10% within 6 months;

(2) at least 45% within 1 year;

(3) at least 75% within 18 months; and

(4) 100% within 2 years, subject to the Reasonable Retainage exception described below.

Amounts in a Bona Fide Debt Service Fund or a reasonably required reserve or replacement fund for the Issue are not treated as Gross Proceeds for purposes of the expenditure requirements. However, unless the Issuer has elected otherwise in the Tax Compliance Certificate, earnings on amounts in a reasonably required reserve or replacement fund for the Issue are treated as Available Construction Funds during the 2-year period and therefore must be allocated to expenditures for the governmental purposes of the Issue.

If the Issuer elected in the Tax Compliance Certificate to exclude from Available Construction Proceeds the Investment Proceeds or earnings on a reasonably required reserve or replacement fund for the Issue during the 2-year spend-down period, the Rebate Amount, if any, with respect to such Investment Proceeds or earnings from the Issuance Date must be timely paid to the United States. If the election is not made, the Rebate Amount, if any, with respect to such Investment Proceeds or earnings after the earlier of the date construction is substantially completed or 2 years after the Issuance Date must be timely paid to the United States. The Rebate Amount, if any, with respect to earnings on amounts in a Bona Fide Debt Service Fund must be timely paid to the extent such Fund is subject to the rebate requirements (see footnote 1).

The Issue does not fail to satisfy the spending requirement for the fourth spend-down period (i.e., 100% within two years of the Issuance Date) if the only unspent Available Construction Proceeds are amounts for Reasonable Retainage if such amounts (together with all earnings on such amounts) are allocated to expenditures within three years of the Issuance Date.

For purposes of determining whether the spend-down requirements have been met as of the end of each of the first three spend-down periods, Available Construction Proceeds include the amount of Investment Proceeds or earnings that the Issuer reasonably expected as of the Issuance Date, to apply these spend-down requirements on the basis of actual facts rather than reasonable expectations. For purposes of satisfying the final spend-down requirement, Available Construction Proceeds include actual Investment Proceeds or earnings from the Issuance Date through the end of the 2-year period.

Available Construction Proceeds do not include Gross Proceeds used to pay Issuance Costs financed by the Issue, but do include earnings on such Proceeds. Thus, an expenditure of Gross Proceeds to pay Issuance Costs does not count toward meeting the spend-down requirements, but expenditures of earnings on such Gross Proceeds to pay Issuance Costs do count.

(B) 1½% penalty in lieu of rebate for Construction Issues. If the Issuer elected in the Tax Compliance Certificate for a Construction Issue, or for the Construction Portion of a Bifurcated Issue, to pay a 1½% penalty in lieu of the Rebate Amount on Available Construction Proceeds in the event that the Construction Issue fails to satisfy any of the spend-down requirements, the 1½% penalty is calculated separately for each spend-down period, including each semiannual period after the end of the fourth spend-down period until all Available Construction Proceeds have been spent. The penalty is equal to 0.015 times the underexpended Proceeds as of the end of the applicable spend-down period. The fact that no arbitrage is in fact earned during such spend-down period is not relevant. The Rebate Amount with respect to Gross Proceeds other than Available Construction Proceeds (*e.g.*, amounts in a reasonably required reserve or replacement fund or in a Bona Fide Debt Service Fund, to the extent subject to rebate (see footnote 1)) must be timely paid.

PART III: COMPUTATION AND PAYMENT.

SECTION 3.01. COMPUTATION AND PAYMENT OF REBATE AMOUNT.

If none of the Spending Exceptions described above is satisfied (and if the 1-1/2% penalty election for a Construction Issue or the Construction Portion of a Bifurcated Issue has not been made), then within 45 days after each Computation Date, the Issuer shall compute, or cause to be computed, the Rebate Amount as of such Computation Date. The first Computation Date is a date selected by the Issuer, but shall be not later than five years after the Issuance Date. Each subsequent Computation Date shall end five years after the previous Computation Date except that, in a Variable Yield Issue, the Issuer may select annual Yield Periods. The final Computation Date shall be the date the last obligation of the Issue matures or is finally discharged.

Within 60 days after each Computation Date (except the final Computation Date), the Issuer shall pay to the United States not less than 90% of the Rebate Amount, if any, computed as of such Computation Date. Within 60 days after the final Computation Date, the Issuer shall pay to the United States 100% of the Rebate Amount, if any, computed as of the final Computation Date. In computing the Rebate Amount, a computation credit may be taken into account on the last day of each Bond Year to the Computation Date during which there are unspent Gross Proceeds that are subject to the rebate requirement, and on the final maturity date.

If the operative documents pertaining to the Issue establish a Rebate Fund and require the computation of the Rebate Amount at the end of each Bond Year, the Issuer shall calculate, or cause to be calculated, within 45 days after the end of each Bond Year the Rebate Amount, taking into account the computation credit for each Bond Year. Within 50 days after the end of each Bond Year, if the Rebate Amount is positive, the Issuer shall deposit in the Rebate Fund such amount as will cause the amount on deposit therein to equal the Rebate Amount, and may withdraw any amount on deposit in the Rebate Fund in excess of the Rebate Amount. Payments of the Rebate Amount to the Internal Revenue Service on a Computation Date shall be made first from amounts on deposit in the Rebate Fund and second from other amounts specified in the operative documents.

Each payment of the Rebate Amount or portion thereof shall be payable to the Internal Revenue Service and shall be made to the Internal Revenue Service Center, Ogden, UT 84201 by certified mail. Each payment shall be accompanied by Internal Revenue Service Form 8038-T and any other form or forms required to be submitted with such remittance.

SECTION 3.02. BOOKS AND RECORDS.

(A) The Issuer or Trustee, as applicable, shall keep proper books of record and accounts containing complete and correct entries of all transactions relating to the receipt, investment, disbursement, allocation and application of the Gross Proceeds of the Issue. Such records shall specify the account or fund to which each Nonpurpose Investment (or portion thereof) held by the Issuer or Trustee is to be allocated and shall set forth as to each Nonpurpose Investment (1) its purchase price, (2) identifying information, including par amount, interest rate, and payments dates, (3) the amount received at maturity or its sales price, as the case may be, including accrued interest, (4) the amounts and dates of any payments made with respect thereto, and (5) the dates of acquisition and disposition or maturity.

(B) The Issuer, Trustee, or Rebate Analyst, as applicable, shall retain the records of all calculations and payments of the Rebate Amount until three years after the retirement of the last obligation that is a part of the Issue.

SECTION 3.03. FAIR MARKET VALUE.

(A) No Nonpurpose Investment shall be acquired for an amount in excess of its fair market value. No Nonpurpose Investment shall be sold or otherwise disposed of for an amount less than its fair market value.

(B) The fair market value of any Nonpurpose Investment shall be the price at which a willing buyer would purchase the Nonpurpose Investment from a willing seller in an arms-length transaction. Fair market value generally is determined on the date on which a contract to purchase or sell the Nonpurpose Investment becomes binding (*i.e.*, the trade date rather than the settlement date). Except as otherwise provided in this Section, a Nonpurpose Investment that is not of a type traded on an established securities market (within the meaning of Section 1273 of the Code) is rebuttably presumed to be acquired or disposed of for a price that is not equal to its fair market value.

(C) Obligations purchased directly from the Treasury. The fair market value of a United States Treasury obligation that is purchased directly from the United States Treasury is its purchase price.

(D) Safe harbor for Guaranteed Investment Contracts. The purchase price of a Guaranteed Investment Contract shall be treated as its fair market value on the purchase date if all the following conditions are met:

(1) Issuer or broker makes a bona fide solicitation for a specified Guaranteed Investment Contract and receives at least three bona fide bids from reasonably competitive providers (of Guaranteed Investment Contracts) that have no material financial interest in the Issue.

(2) The Issuer purchases the highest-yielding Guaranteed Investment Contract for which a qualifying bid is made (determined net of broker's fees).

(3) The Yield on the Guaranteed Investment Contract (determined net of broker's fees) is not less than the Yield then available from the provider on reasonably comparable Guaranteed Investment Contracts, if any, offered to other persons from a source of funds other than Gross Proceeds of Tax-Exempt Obligations.

(4) The determination of the terms of the Guaranteed Investment Contract takes into account as a significant factor the Issuer's reasonably expected drawdown schedule for the amounts to be invested, exclusive of amounts deposited in a Bona Fide Debt Service Fund and a reasonably required reserve or replacement fund.

(5) The terms of the Guaranteed Investment Contract, including collateral security requirements, are reasonable.

(6) The obligor on the Guaranteed Investment Contract certifies the administrative costs that it is paying (or expects to pay) to third parties in connection with the Guaranteed Investment Contract.

(E) Safe harbor for certificates of deposit. The purchase price of a certificate of deposit shall be treated as its fair market value on the purchase date if all of the following requirements are met.

(1) The certificate of deposit has a fixed interest rate, a fixed payment schedule, and a substantial penalty for early withdrawal.

(2) The Yield on the certificate of deposit is not less than (a) the Yield on reasonably comparable direct obligations of the United States, or (b) the highest Yield that is published or posted by the provider to be currently available from the provider on reasonably comparable certificates of deposit offered to the public.

Certificates evidencing the foregoing requirements should be obtained before purchasing any Guaranteed Investment Contract or certificate of deposit.

SECTION 3.04. CONSTRUCTIVE SALE/PURCHASE.

(A) Nonpurpose Investments that are held by the Issuer or Trustee as of any Computation Date (or Bond Year if the computations are required to be done annually) shall be treated for purposes of computing the Rebate Amount as of such date as having been sold for their fair market value as of such date. Investment Property which becomes allocated to Gross Proceeds of the Issue on a date after such Investment Property has actually been purchased shall be treated for purposes of the rebate requirements as having been purchased by the Issuer on such date of allocation at its fair market value on such date.

(B) For purposes of constructive or deemed sales or purchases of Investment Property (other than Investment Property in the Escrow Fund or that is otherwise not invested for a Temporary Period or is not part of a reasonably required reserve or replacement fund for the Issue) must be valued at its fair market value on the date of constructive or deemed sale or purchase

(C) Except as set forth in (B), fixed rate Investment Property that is (1) issued with not more than 2% of original issue discount or original issue premium, (2) issued with original issue premium that is attributable exclusively to reasonable underwriters' compensation or (3) acquired with not more than 2% of market discount or market premium, may be treated as having a fair market value equal to its outstanding stated principal amount, plus accrued interest. Fixed-rate Investment Property also may be treated as having a fair market value equal to its present value.

SECTION 3.05. ADMINISTRATIVE COSTS.

(A) Administrative costs shall not be taken into account in determining the payments for or receipts from a Nonpurpose Investment unless such administrative costs are Qualified Administrative Costs. Thus, administrative costs or expenses paid, directly or indirectly, to purchase, carry, sell, or retire Nonpurpose Investments generally do not increase the Payments for, or reduce the Receipts from, Nonpurpose Investments.

(B) Qualified Administrative Costs are taken into account in determining the Payments and Receipts on Nonpurpose Investments and thus increase the Payments for, or decrease the Receipts from, Nonpurpose Investments. In the case of a Guaranteed Investment Contract, a broker's commission or similar fee paid on behalf of either the Issuer or the provider is a Qualified Administrative Cost to the extent (1) the amount of the fee treated as a Qualified Administrative Cost does not exceed the lesser of (a) $50,000, or such higher amount as determined and published by the Internal Revenue Service as the "cost of living adjustment" for the calendar year in which the Guaranteed Investment Contract is acquired and (b) 0.2% of the Computational Base or, if more, $5,000, or such higher amount as determined and published by the Internal Revenue Service as the "cost of living adjustment" for the calendar year in which the Guaranteed Investment Contract is acquired and (2) the aggregate amount of broker's commissions or similar fees with respect to all Guaranteed Investment Contracts and Nonpurpose Investments acquired for a yield-restricted defeasance escrow purchased with Gross Proceeds of the Issue treated as Qualified Administrative Costs does not exceed a cap of $141,000, or such higher amount as determined and published by the Internal Revenue Service as the "cost-of-living adjustment" for the calendar year in which the Guaranteed Investment Contract is acquired less the portion of such cap, if any, used in prior years with respect to the Issue.

PART IV: COMPLIANCE AND AMENDMENT

SECTION 4.01. COMPLIANCE.

The Issuer, Trustee or Rebate Analyst, as applicable, shall take all necessary steps to comply with the requirements of these Instructions in order to ensure that interest on the Issue is excluded from gross income for federal income tax purposes under Section 103(a) of the Code. However, compliance shall not be required in the event and to the extent stated therein the Issuer and the Trustee receive an opinion of Bond Counsel that either (A) compliance with such requirement is not required to maintain the exclusion from gross income for federal income tax purposes of interest on the Issue, or (B) compliance with some other requirement in lieu of such requirement will comply with Section 148(f) of the Code, in which case compliance with the other requirement specified in the opinion of Bond Counsel shall constitute compliance with such requirement.

SECTION 4.02. LIABILITY.

If for any reason any requirement of these Instructions is not complied with, the Issuer and the Trustee, if applicable, shall take all necessary and desirable steps to correct such noncompliance within a reasonable period of time after such noncompliance is discovered or should have been discovered with the exercise of reasonable diligence. The Trustee shall have no duty or responsibility to independently verify any of the Issuer's, or the Rebate Analyst's, calculations with respect to the payments of the Rebate Amount due and owing to the United States. Under no circumstances whatsoever shall the Trustee be liable to the Issuer, any bondholder or any other person for any inclusion of the interest on the Issue in gross income for federal income tax purposes, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, so long as the Trustee acts only in accordance with these Instructions and the operative documents pertaining to the Issue.

(End of Attachment A-1)

The 8038G will be prepared when $50,000 of loan funds have been disbursed

LOAN AGREEMENT STANDARD TERMS AND CONDITIONS

Water Infrastructure Finance Authority of Arizona

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This document sets forth Standard Terms and Conditions applicable to the Loan made by the WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA (the "*Authority*") to the Local Borrower. These Standard Terms and Conditions are a part of the Loan Agreement to which this document is attached. Certain terms used herein are defined in Article 8.

Article 1 Covenants of the Local Borrower Relating to the System and the Project.

Section 1.1 **Operation and Maintenance of System**. The Local Borrower covenants and agrees that it shall, in accordance with prudent utility practice, (a) at all times operate the properties of the System and any business in connection therewith in an efficient manner, (b) maintain the System in good repair, working order and operating condition, and (c) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to the System so that at all times the operations carried on in connection therewith shall be properly and advantageously conducted from revenues of the System or, if the Local Borrower so elects, from any other source of funds lawfully available.

Section 1.2 **Additions and Modifications**. The Local Borrower may make any additions, renewals, replacements, modifications or improvements to the System which it deems desirable and which do not materially reduce the operational integrity of any part of the System. All such renewals, replacements, additions, modifications and improvements shall become a part of the System.

Section 1.3 **Disposition of Project and System**.

(a) The Local Borrower shall not sell, lease, abandon or otherwise dispose of all or substantially all or any substantial portion of the Project or the System except upon compliance with the provisions of this Section; provided, however that the requirements of this Section shall not apply to transactions which are capital leases within the meaning of generally accepted accounting principles to finance expansion or improvement of the System and under which the Local Borrower maintains a purchaser's interest or other beneficial ownership, use, possession and control of the System so long as no default exists.

(b) The Local Borrower may sell, lease, abandon or otherwise dispose of all or substantially all or any substantial portion of the Project or the System if the Local Borrower shall give at least ninety (90) days' prior written notice to the Authority of the proposed transaction, and the Authority gives its written consent which shall not be unreasonably withheld. The Local Borrower understands that the Authority, in determining whether or not to give its consent, must determine that the proposed transaction will not adversely affect the Authority's ability to meet its duties, covenants, obligations and agreements or conditions of any grant received by the Authority or the State from the United States of America, which is related to the Capital Grant Facility or any capitalization grants received by the Authority or the State under the Federal Water Pollution Control Act, as amended, and the Federal Safe Drinking Water Act, as amended.

(c) Notwithstanding the provisions of subsection (b) above, the Local Borrower may sell, lease or otherwise dispose of, any of the property comprising part of the System without prior notice to or the consent of the Authority, other than the Project, in either of the following circumstances:

(i) If the Local Borrower determines that such property is not necessary, useful or profitable to the operation of the System; or

(ii) If the value of such property sold, leased or otherwise disposed of in any one year is equal to not more than 5% of the value of the fixed assets of the System.

Section 1.4 **Cost of Project**. The Local Borrower certifies that the estimated Eligible Project Costs as listed in Section 1 of Exhibit B is a reasonable and accurate estimation of the Eligible Project Costs and, upon the direction of the Authority the Local Borrower will supply the Authority with a certificate from its engineer stating that such estimated Eligible Project Costs is a reasonable and accurate estimation.

Article 2 Additional Covenants of the Local Borrower

Section 2.1 **Unconditional Obligations**. The obligation of the Local Borrower to make the Loan Repayments and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part described herein are payable solely from the Source of Repayment described in this Loan Agreement and shall be absolute and unconditional and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any payments hereunder remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or the System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project or this Loan Agreement, or any rights of set-off, recoupment, abatement or counterclaim that the Local Borrower might otherwise have against the Authority or any other party or parties; provided, however, that payments under this Loan Agreement shall not constitute a waiver of any such rights. The Local Borrower shall not be obligated to make any payments required to be made by any other local borrowers under separate loan agreements or local borrower bonds. Notwithstanding any other provision of this Section 2.1, or this Loan Agreement, neither the Authority, nor any assignee of the Authority shall have the right or ability to compel the repayment of this Loan Agreement from any source other than the Source of Repayment.

Section 2.2 **Performance Under Loan Agreement**. The Local Borrower covenants and agrees (a) to maintain the System in good repair and operating condition; (b) to cooperate with the Authority to the extent it may lawfully do so, in the observance and performance of the respective duties, covenants, obligations and agreements of such Local Borrower and the Authority under this Loan Agreement; and (c) to comply with the covenants set forth in this Loan Agreement.

Section 2.3 **Disclaimer of Warranties**. The Local Borrower acknowledges and agrees that (i) the Authority makes no warranty or representation, either express or implied as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the Authority or its respective agents be liable or responsible for any direct, incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the System or the Project; and (iii) are not intended to and shall not be construed as a waiver of any defense or limitation on damages provided for under and pursuant to the laws of the United States or of the State.

Section 2.4 **Loan Repayments; Prepayments; Providing for Payment of the Loan**.

(a) Loan Repayments.

(i) The Local Borrower shall pay to the Authority the amounts set forth in the Loan Repayment Schedule contained in Exhibit A on or before the due dates shown in Exhibit A.

(ii) Each payment made as a Loan Repayment as described in subsection (i) shall be applied first to the combined interest and fee payment then due and payable on the Loan and then to the principal amount of the Loan.

(iii) In addition to the other payments required by this Section, the Local Borrower shall pay a late charge for any payment that is received by the Authority later than the tenth day following its due date, in an amount equal to six percent per annum of the amount of the late payment from its due date to the date it is actually paid; provided, however, that the combined interest and fee rate payable on the Loan including such late charge shall not be in excess of the maximum rate permitted by law or any proceedings or resolution authorizing the execution of this Loan Agreement.

(iv) Upon the final disbursement, if the Loan amount is less than the estimated Eligible Project Costs, the amount of each Principal Installment due as set forth in the Loan Repayment Schedule contained in Exhibit A shall be adjusted to achieve substantially level debt service, and the Authority shall compute the adjusted combined interest and fee amounts to reflect the adjusted principal amounts and shall enter the results in a revised Loan Repayment Schedule delivered to the Local Borrower.

(b) Prepayments. The Loan is not subject to prepayment prior to the tenth anniversary of the final loan draw. The Local Borrower may prepay the Principal Repayment Amount of the Loan in whole or in part in advance of the due dates on or after the tenth anniversary of the final loan draw without penalty upon written notice delivered to the Authority at least 60 days prior to the prepayment date. If the Local Borrower prepays the Repayment Principal Amount in part, the amount of each Principal Installment due as set forth in the Loan Repayment Schedule contained in Exhibit A shall be adjusted to achieve substantially level debt service. Upon such adjustment, the Authority shall compute the adjusted combined interest and fees amounts to reflect the adjusted principal amounts and shall enter the results in the Loan Repayment Schedule with notice to the Local Borrower.

(c) Providing for Payment of the Loan. The Local Borrower may at any time provide for the payment and discharge of the Loan, as provided in this subsection. The Loan shall be deemed to have been paid and discharged if:

(i) the Local Borrower has delivered to the Authority proof satisfactory to the Authority that the Local Borrower has deposited with a financial institution acceptable to the Authority, in trust for and irrevocably committed to payments on the Loan, cash or non-callable direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America) and obligations of any agency or instrumentality of the United States of America the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, which are of such maturities and interest payment dates, and bear such interest, as will be sufficient together with any moneys also deposited, without further investment or reinvestment of either the principal amount or the interest earnings (which earnings are to be held likewise in trust and so committed), to pay all the amounts due under the Loan, as set forth in the Loan Repayment Schedule contained in Exhibit A, as evidenced in a report of an independent firm of nationally recognized certified public accountants addressed to and delivered to the Authority; and

(ii) the Authority has received a bond counsel opinion (as described in Section 6.2(b) and (c) below) to the effect that the deposit of funds and the investment of such deposit, as described in the preceding paragraph, will not, by itself, adversely affect the exclusion from gross income of interest on the Loan or any Authority Bonds for federal income tax purposes.

Section 2.5 **Source of Repayment of Local Borrower's Obligations and Pledge**. The Local Borrower irrevocably pledges the Source of Repayment described in this Loan Agreement for the punctual payment of all amounts due under the Loan Agreement. The Authority and the Local Borrower agree that the amounts payable by the Local Borrower under this Loan Agreement are payable solely from the Source of Repayment described in this Loan Agreement and are not payable from any other source whatsoever, unless the Local Borrower chooses to pay, and pays, any amount due hereunder from any other source lawfully available to it.

Section 2.6 **Insurance**. The Local Borrower shall maintain or cause to be maintained in force, insurance policies with responsible insurers or self-insurance programs or through membership in a risk retention pool, including, but not limited to, the Arizona Municipal Risk Retention Pool (in accordance with the Local Borrower's customary practices) providing against risk of direct physical loss, damage or destruction of the Project and the System, at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining system facilities of the nature of the System, including liability coverage, all to the extent available at reasonable cost.

Section 2.7 **No Liens**. The funds so pledged as described in this Loan Agreement after the payment of all costs of operating and maintaining the System, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto which are prior to, or of equal rank with, the obligation of the Local Borrower to pay this Loan Agreement, and all corporate or other action on the part of the Local Borrower to that end has been and will be duly and validly taken. Except for:

(a) the debt service on any future bonds, notes or other evidence of indebtedness of the Local Borrower issued or contractual obligations incurred in accordance with this Loan Agreement payable from the funds pledged to the payment of this Loan Agreement which are on parity with the lien and charge on the funds so pledged to pay this Loan Agreement and

(b) as provided in Exhibit D of this Loan Agreement, the debt service on currently outstanding bonds, notes or evidences of indebtedness or contractual obligations of the Local Borrower, if any, payable from the Source of Repayment described in Exhibit D of this Loan Agreement which the Local Borrower has disclosed to the Authority in writing.

Section 2.8 **Disadvantaged Business Enterprises**. As applicable, the Local Borrower shall comply with 40 C.F.R Part 33[1]including but not limited to:

Local Borrowers and their prime contractors must follow, document, and maintain documentation of their good faith efforts as listed below to ensure that Disadvantage Business Enterprises (DBEs) have the opportunity to participate in the project by increasing DBE awareness of procurement efforts and outreach.

(a) Ensure DBEs are made aware of contracting opportunities to the fullest extent practicable through outreach and recruitment activities; including placing DBEs on solicitation lists and soliciting them whenever they are potential sources.

(b) Make information on forthcoming opportunities available to DBEs and arrange time frames for contracts and establish delivery schedules, where the requirements permit, in a way that encourages and facilitates participation by DBEs in the competitive process. This includes, whenever possible, posting solicitation for bids or proposals for a minimum of 30 calendar days before the bid or proposal closing date.

(c) Consider in the contracting process whether firms competing for large contracts could be subcontracted with DBEs. This will include dividing total requirements when economically feasible into smaller tasks or quantities to permit maximum participation by DBEs in the competitive process.

(d) Encourage contracting with a consortium of DBEs when a contract is too large for one of these firms to handle individually.

(e) Use the services and assistance of the Small Business Administration and the Minority Business Development Agency of the U. S. Department of Commerce.

(f) If the prime contractor awards subcontracts, require the prime contractor to take the steps in sections (a) through (e) above.

These conditions must be included in all procurement contracts entered into by the Local Borrower for all DWRF and CWRF projects:

(a) The prime contractor must pay its subcontractor for satisfactory performance no more than 30 days from the prime contractor's receipt of payment from the owner.

(b) The prime contractor must notify the owner in writing prior to the termination of any Disadvantage Business Enterprise subcontractor for convenience by the prime contractor.

(c) If a Disadvantage Business Enterprise contractor fails to complete work under the subcontract for any reason, the prime contractor must employ the six good faith efforts if soliciting a replacement contractor.

[1] See Article 9 for a full list of applicable federal laws and authorities relating to Participation by Disadvantaged Business Enterprises in Procurement Under Environmental Protection Agency (EPA) Financial Assistance Agreements.

(d) The prime contractor must continue to employ the six good faith efforts even if the prime contractor has achieved its fair share objectives.

(e) The prime contractor must provide EPA Form 6100-2 DBE Program Subcontractor Participation Form to all of its Disadvantaged Business Enterprise subcontractors. Disadvantaged Business Enterprise subcontractors may send completed Form 6100-2 directly to the Region 9 DBE Coordinator listed below.

Joe Ochab, EPA Region 9, 75 Hawthorne St. (P-22), San Francisco, CA 94105

(f) The prime contractor must have its Disadvantaged Business Enterprise subcontractors complete EPA Form 6100-3 – DBE Program Subcontractor Performance Form. The prime contractor must include all completed forms as part of the prime contractor's bid or proposal package to the Local Borrower.

(g) The prime contractor must complete and submit EPA 6100-4 DBE Program Subcontractor Utilization Form as part of the prime contractor's bid or proposal package to the Local Borrower.

(h) A Local Borrower must ensure that each procurement contract it awards contains the following terms and conditions:

> The contractor shall not discriminate on the basis of race, color, national origin or sex in the performance of this contract. The contractor shall carry out applicable requirements of 40 CFR Part 33 in the award and administration of contracts awarded under EPA financial assistance agreements. Failure by the contractor to carry out these requirements is a material breach of this contract which may result in the termination of this contract or other legally available remedies.

Article 3 Representations of Local Borrower

The Local Borrower represents for the benefit of the Authority that the representations contained in this Loan Agreement are true at the time of execution and delivery of this Loan Agreement and, other than with respect to events outside of Local Borrower's control, will be true in all material respects at all times during the term of this Loan Agreement.

Section 3.1 **Organization and Authority**.

(a) The Local Borrower is a Political Subdivision or Indian Tribe as defined in the Authority Act.

(b) The Local Borrower has full legal right and authority and has, or will obtain as and when required, all necessary licenses and permits required to acquire, own, operate and maintain the Project and the System, to carry on its activities relating thereto, to execute and deliver this Loan Agreement, to undertake and complete the Project, to pledge the Source of Repayment, and to carry out and consummate all transactions contemplated by this Loan Agreement. The Project is a project which the Local Borrower may undertake pursuant to State law and for which the Local Borrower is authorized by law to borrow money.

(c) The proceedings of the Local Borrower's governing body approving this Loan Agreement and authorizing its execution, issuance and delivery on behalf of the Local Borrower, and authorizing the Local Borrower to undertake and complete the Project have been duly and lawfully adopted in accordance with the laws of the State.

(d) This Loan Agreement has been duly authorized, executed and delivered by an Authorized Officer of the Local Borrower; and, assuming that the Authority has all the requisite power and authority to authorize, execute and deliver, and has duly authorized, executed and delivered this Loan Agreement, this Loan Agreement constitutes a legal and valid obligation of the Local Borrower enforceable in accordance with its terms, and the information contained under "Description of the Loan" in this Loan Agreement is true and accurate in all material respects.

Section 3.2 **Full Disclosure**.

(a) To the best of the Local Borrower's knowledge, there is no fact that the Local Borrower has not disclosed to the Authority in writing that materially adversely affects the properties, activities, prospects or condition (financial or otherwise) of the Local Borrower or the System, or the ability of the Local Borrower to make all Loan Repayments due hereunder and otherwise observe and perform its duties, covenants, obligations and agreements under this Loan Agreement.

(b) The information relating to the Local Borrower (including without limitation the financial and statistical data contained therein) submitted to the Authority by the Local Borrower in connection with the Authority's approval of the Loan was at the time of the Authority's approval of the Loan and at all times subsequent thereto up to and including the Loan Closing, will be (if necessary by amendment provided by the Local Borrower) true and correct and will not contain an untrue statement of material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading in any adverse respect. To the extent permitted by law, and notwithstanding any other provision of this Loan Agreement, the Local Borrower will indemnify, save and hold harmless the Authority, and each of the Authority's agents, for, from and against any and all claims, damages, liability and court awards including costs, expenses and reasonable attorneys' fees incurred as a result of any omission or misstatement of material fact in the information submitted to the Authority by the Local Borrower in connection with the Authority's approval of the Loan, as it may have been supplemented and amended by the Local Borrower.

Section 3.3 **Pending Litigation**. There are no proceedings pending, or to the knowledge of the Local Borrower, threatened, against or affecting the Local Borrower, in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Local Borrower or the System, or the ability of the Local Borrower to make all Loan Repayments and otherwise observe and perform its duties, covenants, obligations and agreements under this Loan Agreement that have not been disclosed in writing to the Authority in the Local Borrower's application for the Loan or otherwise.

Section 3.4 **Compliance with Existing Laws and Agreements**. The authorization, execution and delivery of this Loan Agreement by the Local Borrower, the observance and performance by the Local Borrower of its duties, covenants, obligations and agreements hereunder and the consummation of the transactions provided for in this Loan Agreement, the compliance by the Local Borrower with the provisions of this Loan Agreement and the undertaking and completion of the Project will not result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Local Borrower pursuant to any existing ordinance or resolution, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument (other than the lien and charge of this Loan Agreement and any ordinance or resolution or indenture which authorized outstanding obligations of the Local Borrower which are on a parity with this Loan Agreement as to a lien on, or a source and security for, payment thereon from the source of payment that is pledged to the Loan Repayments) to which the Local Borrower is a party or by which the Local Borrower, the System or any of its property or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Local Borrower was established or any laws, ordinances, resolutions, governmental rules, regulations or court orders to which the Local Borrower, the System or its properties or operations are subject.

Section 3.5 **No Defaults**. No event has occurred and no condition exists that, upon authorization, execution and delivery of this Loan Agreement or receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Local Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Local Borrower or the ability of the Local Borrower to make all Loan Repayments or otherwise observe and perform its duties, covenants, obligations and agreements under this Loan Agreement.

Section 3.6 **Governmental Consent**. The Local Borrower has or will have obtained prior to the date of the Loan Closing all permits and approvals required to date by any governmental body or officer (and reasonably expects to receive all permits required in the future by any governmental agency) for the making, observance and performance by the Local Borrower of its duties, obligations and agreements under this Loan Agreement or for the undertaking or completion of the Project and the financing thereof, and the Local Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Local Borrower of its duties, covenants, obligations and agreements under this Loan Agreement or with the undertaking or completion of the Project and the financing thereof; and the Local Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Local Borrower of its duties, covenants, obligations and agreements under this Loan Agreement or with the undertaking or completion of the Project and the financing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer, other than those already obtained or reasonably expected to be obtained, is required on the part of the Local Borrower as a condition to the authorization, execution and delivery of this Loan Agreement, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

Section 3.7 **Compliance with Law**. The Local Borrower:

(a) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and the failure to comply with which would materially adversely affect the ability of the Local Borrower to conduct its activities or undertake or complete the Project or the condition (financial or otherwise) of the Local Borrower or the System; and

(b) has obtained, or will obtain as and when required, all licenses, permits, franchises or other governmental authorizations necessary for the ownership of its property or for the conduct of its activities which, if not obtained, would materially adversely affect the ability of the Local Borrower to undertake or complete the Project or the condition (financial or otherwise) of the Local Borrower or the System.

Article 4 Assignment

Section 4.1 **Assignment and Transfer by Authority**. The Local Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement that the Authority deems to be necessary in connection with the Clean Water Revolving Fund and Drinking Water Revolving Fund programs of the Authority.

Section 4.2 **Assignment by Local Borrower**. This Loan Agreement may not be assigned by the Local Borrower for any reason, unless the following conditions shall be satisfied: (i) the assignee shall be a governmental unit within the meaning of Section 141(c) of the Code or another entity acceptable to the Authority and the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Local Borrower's duties, covenants, agreements and obligations hereunder; (ii) immediately after such assignment, the assignee shall not be in default in the performance or observance of any duties, covenants, obligations or agreements of the Local Borrower hereunder; and (iii) the Authority shall receive an opinion of counsel to the effect that such assignment will not violate the provisions of any agreement entered into by the Authority with, or condition of any grant received by the Authority from the United States of America relating to the Capital Grant Facility or any capitalization grants received by the Authority or the State under the Federal Water Pollution Control Act and the Federal Safe Drinking Water Act.

No assignment shall relieve the Local Borrower from primary liability for any of its obligations under this Loan Agreement and in the event of such assignment, the Local Borrower shall continue to remain primarily liable for the performance and observance of its obligations to be performed and observed under this Loan Agreement.

Article 5 Defaults and Remedies

Section 5.1 **Events of Default**. If any of the following events occurs, it is hereby defined as and declared to be and to constitute an "*Event of Default*":

(a) failure by the Local Borrower to pay, or cause to be paid, when due any Loan Repayment;

(b) failure by the Local Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Local Borrower for borrowed money (other than the Loan), after giving effect to the applicable grace period, the payments of which are secured by the Source of Repayment described in this Loan Agreement;

(c) failure by the Local Borrower to perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in paragraphs (a) and (b) of this Section, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Local Borrower by the Authority, unless the Authority agrees in writing to an extension of such time prior to its expiration, provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period the Authority may not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Local Borrower and diligently pursued until the Event of Default is corrected;

(d) the institution of any proceeding, with the acquiescence of the Local Borrower, for the purpose of effecting a composition between the Local Borrower and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are payable from the Source of Repayment described in this Loan Agreement;

(e) a determination by the Authority that any material representation made by or on behalf of the Local Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement, is false or misleading in any material respect; and

(f) the filing of a petition by or against the Local Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Local Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Local Borrower becoming insolvent or bankrupt or making an assignment for the benefit of its creditors; or the appointment of a custodian (including, without limitation, a receiver, liquidator or trustee of the Local Borrower or any of its property including the System) by court order, or possession of the Local Borrower or its property or assets is taken if such order remains in effect or such possession continues for more than thirty (30) days.

Section 5.2 **Notice of Default**. The Local Borrower shall give the Authority prompt telephone notice of the occurrence of any Event of Default referred to in Section 5.1 paragraph (c) hereof, and of the occurrence of any other event or condition that constitutes an Event of Default, at such time as any senior administrative or financial officer of the Local Borrower becomes aware of the existence thereof. Any telephone notice pursuant to this Section shall be confirmed in writing by the end of the next Business Day. The Local Borrower shall also give such notice as required by Section 6.12, paragraph (a) hereof.

Section 5.3 **Remedies on Default.**

(a) Whenever an Event of Default referred to in Section 5.1 hereof shall have occurred and be continuing, the Authority shall have the right to take any action permitted or required pursuant to this Loan Agreement and to take whatever other action at law or in equity as may appear necessary or desirable to collect the amounts then due and thereafter to become due on their scheduled payment dates or to enforce the performance and observance of any duty, covenant, obligation or agreement of the Local Borrower hereunder, including, without limitation, appointment of a receiver of the System.

(b) Nothing in this Loan Agreement shall be construed to affect the Attorney General taking action to enforce this Loan Agreement in accordance with the Authority Act.

Section 5.4 **Attorney's Fees and Other Expenses**. In the event of a default hereunder by the Local Borrower, the Local Borrower shall on demand and to the extent not prohibited by applicable law pay to the Authority the reasonable fees and expenses of attorneys and other reasonable expenses (including without limitation the reasonably allocated costs of in-house counsel and legal staff) incurred by the Authority in the collection of Loan Repayments or any other sum due hereunder or in the enforcement of performance or observance of any other duties, covenants, obligations or agreements of the Local Borrower in addition to all sums due pursuant to Section 6.12, paragraph (c) hereof, to the extent permitted by law.

Section 5.5 **Application of Moneys**. The parties acknowledge that: (a) all amounts coming due hereunder as Loan Repayments shall be treated as principal and combined interest and fees with respect to the Loan which amounts are secured by a pledge of the Source of Repayment in accordance with Exhibit D of this Loan Agreement; and (b) amounts coming due under Section 5.4 hereof shall be secured by the Source of Repayment on a basis subordinate to the Loan Repayments, but on a parity with comparable expenses relating to such Outstanding Parity Obligations and Additional Parity Obligations.

However, any moneys collected by the Authority pursuant to Section 5.3 in the exercise of remedies with respect to amounts due or to become due hereunder shall be applied: (a) first, to pay any attorney's fees or other fees and expenses owed by the Local Borrower pursuant to Section 5.4 hereof, (b) second, to pay delinquent combined interest fees and late charges on the Loan; (c) third, to pay combined interest and fees then due and payable on the Loan; (d) fourth, to pay delinquent principal on the Loan in order of scheduled maturity; (e) fifth, to pay principal then due and payable on the Loan; and (f) sixth, to pay any other amounts due and payable pursuant to this Loan Agreement.

Section 5.6 **No Remedy Exclusive; Waiver; Notice**. No remedy conferred upon or reserved to the Authority hereunder is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it as described in this Article, it shall not be necessary to give any notice, other than such notice as may be required in this Article.

Section 5.7 **Retention of Authority's Rights**. Notwithstanding any assignment or transfer of this Agreement pursuant to the provisions hereof, or anything else to the contrary contained herein, the Authority shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Local Borrower at law or in equity, as the Authority may, in its discretion, deem necessary to enforce the obligations of the Local Borrower to the Authority.

Section 5.8 **Default by the Authority**. In the event of any default by the Authority in any duty, covenant, agreement or obligation described in this Agreement, the Local Borrower's remedy for such default shall be limited to injunction, special action, action for specific performance or any other available equitable remedy designed to enforce the performance or observance of any duty, covenant, obligation or agreement of the Authority described herein as may be necessary or appropriate. The Authority shall on demand pay to the Local Borrower the reasonable fees and expenses of attorneys and other reasonable expenses in the enforcement of such performance or observance.

Article 6 Provisions Applicable to Loans Financed by or Pledged to Secure Authority Bonds

Section 6.1 **General.** The Local Borrower acknowledges that the Authority is entering into this Loan Agreement and agreeing to make the Loan at this time for the benefit of the Local Borrower, and that the Authority may finance the Loan, along with other loans to other local borrowers, through the issuance of Authority Bonds and may pledge the Loan to secure Authority Bonds. If and for so long as the Authority's source of funds to make disbursements on, or to carry, the Loan represented by this Loan Agreement is, or becomes, the proceeds of Authority Bonds, or this Loan Agreement is assigned by the Authority as security for payment of amounts due or to become due on Authority Bonds, the Local Borrower agrees to cooperate with the Authority with respect to the issuance of Authority Bonds by furnishing and certifying information concerning the Local Borrower, the Project, the System and the Source of Repayment, and by agreeing to reasonable modifications and additions to this Loan Agreement necessary or convenient for the Authority Bond transaction. Without limiting the generality of the foregoing, the Local Borrower agrees that if the Authority at any time determines, in its discretion, that it is necessary in connection with the issuance of Authority Bonds or the maintenance of the Authority's bond program, then the provisions set forth in this Article shall be in effect.

Section 6.2 **Tax Covenants**.

(a) General. The Local Borrower acknowledges that, in connection with its state revolving fund programs, the Authority issues its Authority Bonds from time to time to finance loans and the Authority also pledges certain loans to secure and to serve as the source of payment for the Authority Bonds. As a result, and under the provisions of federal tax law applicable to the Authority Bonds, it is in the Authority's interest for the Loan to qualify and be a Tax-Exempt Obligation that is not an AMT Obligation. Therefore, the Local Borrower represents and covenants as follows with respect to the Loan and the Authority Bonds. The Local Borrower covenants that it will not take any action, or fail to take any action, if any such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Loan or the Authority Bonds under Section 103(a) of the Internal Revenue Code or cause the interest on the Loan or the Authority Bonds to become an AMT Obligation, and in the event of such action or omission, it will, promptly upon having such brought to its attention, take such reasonable actions based upon a bond counsel opinion as may rescind or otherwise negate such action or omission. The Local Borrower will not directly or indirectly use or permit the use of any proceeds of the Loan or any other funds of the Local Borrower or take or omit to take any action that would cause the Loan or the Authority Bonds to be or become "arbitrage bonds" within the meaning of Section 148(a) of the Internal Revenue Code or to fail to meet any other applicable requirement of Sections 103, 141, 148, 149 and 150 of the Internal Revenue Code or cause the interest on the Loan or the Authority Bonds to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code. To that end, the Local Borrower will comply with all applicable requirements of Sections 103, 141, 148, 149 and 150 of the Code to the extent applicable to the Loan.

(b) Modification Based on Bond Counsel Opinion. Notwithstanding any provision of this Section, if the Local Borrower provides to the Authority a bond counsel opinion to the effect that any action required under this Section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of interest on the Loan or the Authority Bonds pursuant to Section 103(a) of the Internal Revenue Code, the provisions of this Section and the covenants in this Section shall be deemed to be modified to that extent.

(c) Bond Counsel Opinion. For purposes of this Article, "bond counsel opinion" means an opinion letter of a firm of attorneys of national reputation experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds, and who is acceptable to the Authority.

Section 6.3 **Third Party Beneficiaries**. The Trustee, the owners from time to time of the Authority Bonds, any Credit Enhancer from time to time of the Authority Bonds and any underwriter of the Authority Bonds are each expressly acknowledged to be third party beneficiaries of this Loan Agreement and each representation, agreement, duty, obligation and provision of this Loan Agreement.

Section 6.4 **Additional Documents Relating to Authority Bonds**. The Local Borrower will furnish to the Authority and certify to such information and execute and deliver and cause to be executed and delivered such documents as the Authority, the underwriter or other parties to any Authority Bond transaction may reasonably require, including, without limitation:

(a) a certificate of an Authorized Officer of the Local Borrower to the effect that the information contained in the Final Official Statement (defined in Section 6.5, paragraph (a)) for the Authority Bonds concerning the Local Borrower is correct in all material respects and is an accurate summary of the information which it purports to summarize, and that nothing has come to the Authorized Officer's attention that would lead the Authorized Officer to believe that the information in the Final Official Statement relating to the Local Borrower contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and

(b) subject to the continuing disclosure requirements of Securities and Exchange Commission Rule 15c2-12 (the "*Disclosure Rule*"), a continuing disclosure undertaking of the Local Borrower meeting the requirements of the Disclosure Rule , and a statement of the Local Borrower as to whether it has failed to provide any information and notices required by the provisions of previous continuing disclosure undertakings, if any, of the Local Borrower under the Disclosure Rule, and if it has not, describing the circumstances and status of such failure; and

(c) an appropriate certificate executed by Authorized Officer of the Local Borrower concerning the reasonable expectations of the Local Borrower as to the use of the proceeds of the Loan and such other matters as may be required on the part of the Local Borrower in order to ensure that the Authority Bonds are and will remain Tax-Exempt Obligations that are not AMT Obligations, and the Local Borrower covenants to comply with the provisions of such certificate; and

(d) such other certificates, documents and information, and supplemental opinions of Local Borrower's counsel, as the Authority, the underwriters of the Authority Bonds or other parties to the Authority Bonds transaction may reasonably require and as are necessary to confirm the continued truth and accuracy of information supplied by or on behalf of the Local Borrower.

Section 6.5 **Disclosure Regarding Authority Bonds**.

(a) The information, if any, relating to the Local Borrower (including without limitation the financial and statistical data contained therein) which has been furnished by the Local Borrower to be included in, and which is included in, a Preliminary Official Statement of the Authority (the "*Preliminary Official Statement*"), or a final Official Statement (the "*Final Official Statement*") of the Authority concerning any Authority Bonds, as of the respective dates of each such document and at all times subsequent thereto up to and including the Bond Closing, will be (if necessary by amendment provided by the Local Borrower) true and correct and will not contain an untrue statement of material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. To the extent permitted by law, and notwithstanding any other provision of this Loan Agreement, the Local Borrower will indemnify, save and hold harmless the Authority and each other local borrower, if any, included in the Final Official Statement, and each of such parties' respective agents, for, from and against any and all claims, damages, liability and court awards including costs, expenses and attorneys fees incurred as a result of any omission or misstatement of a material fact in the Local Borrower's information in the Final Official Statement, as it may have been supplemented or amended by the Local Borrower.

(b) The Local Borrower agrees that from the date of the Final Official Statement and for a period until not later than 25 days after the date of the Bond Closing if and so long as the offering of the Authority Bonds continues (i) the Local Borrower will furnish such information with respect to itself as the Authority (for itself or at the request of the underwriters of the Authority Bonds) may from time to time reasonably request and (ii) if any event shall occur as a result of which it is necessary, in the opinion of Bond Counsel to the Authority, or counsel for the underwriters of the Authority Bonds, to amend or supplement the information in the Final Official Statement relating to the Local Borrower in order to make such information not misleading in light of the circumstances then existing, the Local Borrower will forthwith prepare, and furnish to the Authority and the underwriters such information relating to the Local Borrower as may be necessary to permit the preparation of an amendment of or supplement to the Final Official Statement (in form and substance satisfactory to the Bond Counsel to the Authority and counsel for the underwriters) which will amend or supplement the Final Official Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances then existing, not misleading.

(c) The Local Borrower agrees that if prior to the 25th day following the end of the underwriting period of the Authority Bonds, as defined for purposes of the Disclosure Rule, any event shall occur which causes the representations contained in Section 6.4, paragraph (a) to be false in any material respect, the Local Borrower shall promptly notify the Authority of such development, and if in the opinion of the Authority and the underwriters of the Authority Bonds such development requires the preparation of a supplement or an amendment to the Preliminary Official Statement or the Final Official Statement, the Local Borrower agrees to cooperate with the Authority and the underwriters for the Authority Bonds in preparing any such supplement or amendment in a form acceptable to such parties and to pay all reasonable expenses incurred by such parties in connection with the preparation thereof.

Section 6.6 **Assignment and Transfer by Authority to Trustee**.

(a) The Local Borrower expressly acknowledges that, other than the right of the Authority to be indemnified by the Local Borrower, all right, title and interest of the Authority in, to and under this Loan Agreement will be assigned to the Trustee as security for the Authority Bonds, as applicable, as provided in the Authority's Master Trust Indenture, and that if any Event of Default shall occur the Trustee, pursuant to the Authority's Master Trust Indenture, shall be entitled to act hereunder in the place and stead of the Authority. The Local Borrower hereby acknowledges the requirements of the Authority's Master Trust Indenture applicable to the Authority Bonds and consents to such assignment and appointment. The Authority shall retain the right to compel or otherwise enforce observance and performance by the Local Borrower of its duties, covenants, obligations and to be indemnified by the Local Borrower; provided, however, that in no event shall the Authority or the Trustee have the right to accelerate the payments under this Loan Agreement.

(b) The Local Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement that the Authority deems to be necessary in connection with any refunding of the Authority Bonds or otherwise in connection with the Clean Water Revolving Fund and Drinking Water Revolving Fund programs of the Authority.

Section 6.7 **Conditions to Assignment by Local Borrower**. Notwithstanding Section 4.2, this Loan Agreement may not be assigned by the Local Borrower for any reason, unless the following conditions shall be satisfied: (a) the Authority, the Trustee and the Credit Enhancer, if any, of the Authority Bonds shall have approved said assignment in writing; (b) the assignee shall be a governmental unit within the meaning of Section 141(c) of the Internal Revenue Code or another entity acceptable to the Authority and the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Local Borrower's duties, covenants, agreements and obligations hereunder; (c) immediately after such assignment, the assignee shall not be in default in the performance or observance of any duties, covenants, obligations or agreements of the Local Borrower hereunder; (d) the Authority and the Trustee shall have received an opinion of bond counsel to the effect that such assignment will not adversely affect the exclusion of interest on the Authority Bonds from gross income for purposes of Federal income taxation under Section 103(a) of the Code or make the Authority Bonds or the Loan AMT Obligations; and (e) the Authority and the Trustee shall receive an opinion of counsel to the effect that such assignment will not violate the provisions of the Master Trust Indenture or any agreement entered into by the Authority with, or condition of any grant received by the Authority from, the United States of America relating to the Capital Grant Facility or any capitalization grants received by the Authority or the State under the Federal Water Pollution Control Act and the Federal Safe Drinking Water Act.

No assignment shall relieve the Local Borrower from primary liability for any of its obligations under this Loan Agreement and in the event of such assignment, the Local Borrower shall continue to remain primarily liable for the performance and observance of its obligations to be performed and observed under this Loan Agreement.

Section 6.8 **Sale or Other Disposition of Project or System**. The Local Borrower agrees that it will not sell, lease, abandon or otherwise dispose of all or substantially all or any substantial portion of the Project or the System unless (a) the transferee assumes the Local Borrower's obligations under this Loan Agreement in accordance with Section 6.6, (b) the Authority shall by appropriate action determine, in its sole discretion, that such sale, lease, abandonment or other disposition will not adversely affect the Authority's ability to meet its duties, covenants, obligations and agreements under the Bond Documents, and will not adversely affect the eligibility of interest on Authority Bonds then outstanding or which could be issued in the future for exclusion from gross income for purposes of federal income taxation or cause such Authority Bonds to be AMT Obligations, and (c) the Credit Enhancer, if any, of the Authority Bonds shall have given its prior written consent to such disposition.

Section 6.9 **Deficiencies Under Bond Documents Caused by Failure to Make Loan Repayment**. The Local Borrower acknowledges that payment of the Authority Bonds by the Authority, including payment from moneys drawn by the Trustee from the Bond Reserves or the CWRF Financial Assistance Account and DWRF Financial Assistance Account~~s~~ established under the Bond Documents, does not constitute payment of the amounts due under this Loan Agreement. If at any time the amounts on deposit in the Bond Reserves or the CWRF Financial Assistance Account and DWRF Financial Assistance Account~~s~~ shall be less than the amounts required by the Bond Documents as the result of any transfer of moneys from the Bond Reserves or the CWRF Financial Assistance Account and DWRF Financial Assistance Account~~s~~ which in turn is the result of a failure by the Local Borrower to make any Loan Repayments required hereunder, the Local Borrower agrees to (a) replenish such moneys so transferred, and (b) replenish any deficiency arising from losses incurred in making such transfer as the result of the liquidation by the Authority of investment securities acquired as an investment of moneys in the Bond Reserves or the CWRF Financial Assistance Account and DWRF Financial Assistance Account~~s~~, by making payments to the Authority in equal monthly installments for the lesser of six (6) months or the remaining term of the Loan at a combined interest and fee rate to be determined by the Authority necessary to make up any loss caused by such deficiency, provided that the combined interest and fee rate payable on the Loan including such make-up combined interest and fees shall not exceed the maximum rate permitted by the Authorizing Proceedings which authorized this Loan Agreement.

Section 6.10 **Indemnification**. To the extent permitted by law, the Local Borrower shall indemnify, save and hold harmless the Authority against any and all claims, damages, liability and court awards including costs, expenses and attorney fees to the extent incurred as a result of any gross negligence or willful misconduct by the Local Borrower, or its employees, agents or subcontractors pursuant to the terms of this Loan Agreement.

Section 6.11 **Compliance with Master Trust Indenture**. The Local Borrower covenants and agrees to take such action as it may lawfully take and as the Authority shall reasonably request so as to enable the Authority to observe and comply with, all duties, covenants, obligations and agreements contained in the Master Trust Indenture insofar as such duties, covenants, obligations and agreements relate to the obligations of the Local Borrower under this Loan Agreement.

Section 6.12 **Provisions Relating to Default**.

(a) Any notice or information which the Local Borrower is to give to the Authority pursuant to the provisions of Article 5 shall also be given by the Local Borrower to the Trustee and to any Credit Enhancer at the same time.

(b) Notwithstanding the provisions of Section 5.3, paragraph (a) and Section 5.7, so long as a Credit Enhancer is not in default of its obligations with respect to its payment guarantee of the Authority Bonds and such guarantee is in effect, the Credit Enhancer shall have the right to direct the exercise of remedies provided for herein and the Trustee and the Authority shall not pursue any remedy except with the prior written consent of the Credit Enhancer.

(c) In the event of a default hereunder by the Local Borrower, the Local Borrower shall also pay the expenses of the Trustee and of any Credit Enhancer in the same manner as provided in Section 5.4 with respect to the expenses of the Authority.

Section 6.13 **Tax Compliance Certificate**. If the Authority Bonds are issued and sold on the basis that they are Tax-Exempt Obligations, an Authorized Officer of the Local Borrower shall deliver an appropriate certificate concerning the reasonable expectations of the Local Borrower as to the use of the proceeds of the Loan and such other matters as may be required on the part of the Local Borrower in order to ensure that the Authority Bonds are and will remain Tax-Exempt Obligations that are not AMT Obligations, and the Local Borrower covenants to comply with the provisions of such certificate.

Article 7 Miscellaneous

Section 7.1 **Binding Effect**. This Loan Agreement shall inure to the benefit of and shall be binding upon the Authority and the Local Borrower and their respective successors and assigns.

Section 7.2 **Severability**. In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

Section 7.3 **Amendments, Supplements and Modifications**. This Loan Agreement may not be amended, supplemented or modified without the prior written consent of the Authority and the Local Borrower.

Section 7.4 Counterpart Execution; Electronic Records And Signatures.

Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this document to physically form one document.

Electronic Records and Signatures. Local Borrower acknowledges and agrees that the Authority may require or permit certain transactions with Local Borrower be conducted electronically using electronic records and/or electronic signatures. Local Borrower consents to the use of electronic records and electronic signatures whenever expressly required or permitted by the Authority and acknowledges that Local Borrower shall be bound by its electronic signature and by the terms, conditions, requirements, information, and instructions contained in any such electronic records. For purposes of this section, an "electronic signature" has the same meaning as prescribed in A.R.S. § 18-106(F)(3).

Section 7.5 **Captions**. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

Section 7.6 **Further Assurances**. The Local Borrower shall, at the request of the Authority, authorize, execute, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights and agreements granted or intended to be granted by this Loan Agreement.

Section 7.7 **State of Arizona Contract Provisions**.

(a) Books and Records. As required by the provisions of Arizona Revised Statutes Section 35-214, the Local Borrower agrees that all books, accounts, reports, files and other records relating to this Loan Agreement shall be retained and shall be subject at all reasonable times to inspection and audits by the Authority for five years after completion of this Loan Agreement, and that upon request by the Authority such records shall be produced at any of the Authority offices designated herein as the place at which notices to the Authority are to be given.

(b) Prohibition Against Discrimination. In the event that it applies, the parties agree to comply with the Arizona Governor's Executive Order 2009-9, entitled "Prohibition of Discrimination in State Contracts Non-Discrimination in Employment by Government Contractors and Subcontractors," which mandates that all persons, regardless of race, color, religion, sex, age, or national origin shall have equal access to employment opportunities, and all other applicable state and Federal employment laws, rules, and regulations, including the Americans with Disabilities Act. The Local Borrower shall take affirmative action to ensure that applicants for employment and employees are not discriminated against due to race, creed, color, religion, sex, national origin or disability.

(c) Governing Law and Forum. This Loan Agreement shall be governed by and construed in accordance with the laws and judicial decisions of the State of Arizona, except as such laws may be preempted by any federal rules or regulations. The parties hereto expressly acknowledge and agree and all Local Borrowers by their acceptance thereof shall be deemed to have acknowledged and agreed that any judicial action to interpret or enforce the terms of this Loan Agreement against the Authority shall be brought and maintained in the Superior Court of the State of Arizona in and for Maricopa County or in the United States District Court in and for the District of Arizona.

(d) Arbitration. In the event of a dispute, the parties agree to use arbitration, after exhausting applicable administrative review, to the extent required by Arizona Revised Statutes Section 12-1518, and the prevailing party shall be entitled to attorney's fees and costs with respect thereto.

(e) Notice of Arizona Revised Statutes Section 38-511 – Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to this Loan Agreement under the law of the State of Arizona.

(f) Additional Warranties and Certifications from the Local Borrower. In compliance with Section 23-214(B) of the Arizona Revised Statutes, the Local Borrower warrants to the Authority that either (i) it is not an "employer" (within the meaning of Arizona Revised Statutes Section 23-214(B)) or (ii) it is registered with and is participating in the employment verification pilot program as jointly administered by the United States department of homeland security and the social security administration or any of its successor programs (the "E-Verify Program") and that the proof submitted to the Authority of that registration and participation is true and correct. The Local Borrower agrees that, until the Loan is fully paid, at all times during which it is an "employer" (within the meaning of Arizona Revised Statutes Section 23-214(B)) it will be registered with and will participate in the E-Verify Program. The breach by the

Local Borrower of the foregoing shall be deemed a material breach by the Local Borrower of this Loan Agreement and may result in penalties up to and including the termination of this Loan Agreement. If the Authority determines that the Local Borrower is not so registered and participating when required, the Authority will notify the Local Borrower by certified mail of the determination of noncompliance and the Local Borrower's right to appeal the determination. On a final determination of noncompliance, the Local Borrower shall repay all monies received as an economic development incentive (within the meaning of Arizona Revised Statutes Section 23-214(B)) to the Authority within thirty days of the final determination.

Article 8 Definitions

Section 8.1 **Definitions**. The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meaning:

"*AMT Obligation*" means a Tax-Exempt Obligation the interest on which is an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code.

"*Annual Loan Review Form*" means the loan compliance questionnaire circulated by the Authority to all borrowers as part of the Authority's annual loan portfolio review.

"*Authority*" means the Water Infrastructure Finance Authority of Arizona, a body corporate and politic of the State of Arizona duly created and validly existing under and by virtue of the Authority Act.

"*Authority Act*" means Title 49, Chapter 8 (Section 49-1201 et seq.) of the Arizona Revised Statutes ("A.R.S.").

"*Authority Bonds*" means any bonds of the Authority issued to finance the State's revolving fund established pursuant to the Water Pollution Control Act, as amended, and the Safe Drinking Water Act, as amended.

"*Authorized Officer*" means, (i) with respect to the Local Borrower, the person whose name is set forth in this Loan Agreement or such other person or persons authorized by the Local Borrower to act as an authorized officer of the Local Borrower to perform any act or execute any document relating to the Loan or this Loan Agreement whose name is furnished in writing to the Authority and the Trustee; and (ii) with respect to the Authority, the Chairman, Vice Chairman, Executive Director, or any other person or persons designated by the Board to act on behalf of the Authority with respect to this Loan Agreement; the designation of such person or persons shall be evidenced by a written certificate containing a specimen signature of such person or persons and signed on behalf of the Authority by its Chairman or Vice Chairman.

"*Bond Closing*" means the date of initial delivery of and payment for the Authority Bonds.

"*Bond Documents*" means and includes the Master Trust Indenture, any supplemental indenture and any comparable or related document pursuant to which the Authority Bonds are issued, and all further amendments and supplements thereto adopted in accordance with the provisions thereof.

"Bond Reserves" means reserves established by the Bond Documents for the Authority Bonds to secure timely payment of amounts due on the Authority Bonds even if one or more local borrowers do not make timely payments on their loans.

"*Business Day*" means any day other than a Saturday, Sunday or legal holiday or a day on which banking institutions, in the city in which the designated office of the Authority (being Phoenix, Arizona) is located, are closed.

"*Capital Grant Facility*" means the contractual arrangement established with the Authority by the United States of America Environmental Protection Agency to make capitalization grant payments pursuant to Title VI of the Federal Water Pollution Control Act, as amended (33 U.S.C. § 125 et seq.) and the Federal Safe Drinking Water Act, as amended (particularly 42 U.S.C. § 300j-12 et seq.).

"*Clean Water Act*" means the Federal Water Pollution Control Act amendments of 1972 (P.L. 92-500; 86 Stat. 816), as amended by the Water Quality Act of 1987 (P.L. 100-4; 101 Stat. 7) and the Water Resources Reform and Development Act of 2014 (P.L. 113-21, 128 Stat. 1193).

"*Clean Water Revolving Fund*" means the fund established by A.R.S. § 49-1221.

"*Code*" means the Internal Revenue Code of 1986, the Regulations (whether temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section includes any applicable successor section or provision and such applicable Regulations, rulings, announcements, notices, procedures and determinations pertinent to that Section.

"*Combined Interest and Fee Rate*" means periodic interest and fee payments made by the Borrower, see Exhibit A to this Loan Agreement.

"*Construction Period"* means the period from the date of the Loan Closing until the date of the final disbursement of proceeds of the Loan pursuant to this Loan Agreement, but in no event later than the third anniversary of the Loan Closing.

"*Cost*" means those costs that are eligible to be funded from draws under the Capital Grant Facility and are reasonable, necessary and allocable to the Project and are permitted by generally accepted government auditing standards to be costs of the Project.

"*Credit Enhancer*" means the entity so designated in the Bond Documents, if any, or any successor thereto, that from time to time has issued and outstanding a municipal bond insurance policy or similar payment guarantee relating to the Authority Bonds.

"*CWRF Financial Assistance Account*" means the account so designated in the Master Trust Indenture to which loans funded by the Clean Water Revolving Fund shall be credited.

"*Debt Management Fee*" means the fee component of the combined interest and fee payments made by the Borrower, see Exhibit A to this Loan Agreement.

"*Department*" means the Department of Environmental Quality of the State of Arizona.

"*Drinking Water Facility*" has the meaning given that term in the Authority Act, currently: a community water system or a non-profit noncommunity water system as defined in the Federal Safe Drinking Water Act (P.L. 93-523; 88 Stat. 1660l; P.L. 95-190; 91 Stat. 1393; P.L. 104-182; 110 Stat. 1613) that is located in the State. The term does not include water systems owned by federal agencies.

"*Drinking Water Revolving Fund*" means the fund established by A.R.S. § 49-1241.

"*DWRF Financial Assistance Account*" means the account so designated in the Master Trust Indenture to which loans funded by the Drinking Water Revolving Fund shall be credited.

"*Eligible Project Costs*" means, whether incurred before or after the date of this Loan Agreement, such portion of the Costs as is disbursed by the Authority for the benefit of the Local Borrower. The Local Borrower and the Authority acknowledge that the actual Eligible Project Costs for the Project have not been determined as of the effective date of this Loan Agreement. The final Eligible Project Costs shall be established after all disbursements have been made.

"*Event of Default*" means any occurrence or event specified in Section 5.1 hereof.

"*Indian Tribe*" has the meaning given that term by the Authority Act, currently: any Indian tribe, band, group or community that is recognized by the United States Secretary of the Interior and that exercises governmental authority within the limits of any Indian reservation under the Jurisdiction of the United States government notwithstanding the issuance of any patent and including rights-of-way running through the reservation.

"*Loan*" means (a) during the Construction Period, the commitment to lend to the Local Borrower the Estimated Eligible Project Costs set forth in this Loan Agreement (as it may be amended or revised from time to time), and (b) thereafter, the amount of money equal to the Eligible Project Costs which is actually loaned to the Local Borrower pursuant to this Loan Agreement.

"*Loan Agreement*" or "*Agreement*" means this Loan Agreement, including the Exhibits and these Standard Terms and Conditions attached to this Loan Agreement, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof.

"*Loan Closing*" means the date of execution and delivery of this Loan Agreement.

"*Loan Repayment Date*" means the payment dates commencing and ending on the dates set forth in this Loan Agreement.

"*Loan Repayments*" means the payments payable by the Local Borrower pursuant to this Loan Agreement.

"*Local Borrower*" means the Political Subdivision or Indian Tribe that is a party to and is described in the first paragraph of this Loan Agreement.

"*Master Trust Indenture*" means and includes the Master Trust Indenture dated as of August 1, 1999, as supplemented, and any comparable or related document, pursuant to which the Authority issues Authority Bonds.

"*Political Subdivision*" has the meaning given that term by the Authority Act, currently: a county, city, town or special taxing district authorized by law to construct wastewater treatment facilities.

"*Project*" is the project described in Section 2.1 of the Loan Agreement, all or a portion of the Cost of which is financed from the proceeds of the Loan.

"*Repayment Period*" means the period over which the principal amount of the Loan will be repaid which period begins and ends on the dates set forth in this Loan Agreement.

"*Repayment Principal Amount*" means the amount the Authority agrees to loan to the Local Borrower pursuant to this Loan Agreement or such lesser amount of actual Eligible Project Costs as represents the aggregate amount of the Loan actually made pursuant to this Loan Agreement.

"Reserve Fund Surety" means a surety bond, insurance policy, letter of credit or similar arrangement representing the irrevocable obligation of the issuer thereof to pay to or at the direction of the Local Borrower an amount up to the Reserve Requirement as set forth in Exhibit A.

"*Safe Drinking Water Act*" means the Federal Safe Drinking Water Act (P.L. 93-523; 88 Stat. 1660; P.L. 96-190; 91 Stat . 1393; P.L. 104-182; 110 Stat. 1613), as amended in 1996.

"*Source of Repayment*" means the "source of repayment" set forth in this Loan Agreement as defined in Exhibit D.

"*State*" means the State of Arizona.

"*System*" means the "System" as defined in Section 2.2 of the Loan Agreement.

"*Tax-Exempt Obligation*" means any obligation or issue of obligations (including bonds, notes and lease obligations treated for federal income tax purposes as evidences of indebtedness) the interest on which is excluded from gross income for federal income tax purposes within the meaning of Section 150 of the Code, and includes any obligation or any investment treated as a "tax-exempt bond" for the applicable purpose of Section 148 of the Code

"*Trustee*" means the Trustee appointed by the Authority pursuant to the Bond Documents and its successor or successors and any other corporation which may at any time be substituted in its place as Trustee pursuant to the Bond Documents.

Terms not otherwise defined herein shall have the meanings ascribed to them in Exhibit D to the Loan Agreement.

Section 8.2 **Rules of Interpretation**. For all purposes of this Loan Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) Words of one gender include the corresponding words of other genders; words of neuter include both genders; and words in the singular include words in the plural and vice versa.

(b) Words indicating persons, parties, or entities (and the like) include firms, associations, partnerships (including limited partnerships), limited liability companies (and the like), corporations, trusts and other legal entities, including public and governmental bodies, as well as natural persons.

(c) References to a statute refer to the statute, as amended, and any successor statute, and to all regulations promulgated under or implementing the statute or successor statute, as in effect at the relevant time.

(d) References to a governmental or quasi-governmental entity or representatives thereof also refer to an entity that succeeds to the functions of the governmental or quasi-governmental entity and representatives thereof.

(e) Headings preceding sections of text and any table of contents are solely for convenience of reference and are not part of this Loan Agreement and are not to affect its meaning, interpretation or effect.

(f) Actions permitted under this Loan Agreement may be taken at any time and from time to time in the actor's sole discretion.

(g) The word "including" means "including, but not limited to" and the word "include" means "include, among others."

(h) The terms "hereby," "hereof," "herein," and "hereunder" (and the like) refer to this Loan Agreement.

(i) Indications of time of day mean local time in Phoenix, Arizona.

(j) This Loan Agreement shall be governed by and construed in accordance with the applicable law of the State of Arizona, except for its conflict of law rules and except as preempted by federal.

Article 9 List of Federal Laws and Authorities

By Section 5.4 and Section 5.5 of Exhibit B to the Loan Agreement, the Local Borrower agrees that the Project will comply with applicable provisions of the following federal laws and authorities:

<u>Environmental</u>:

1. Archaeological and Historical Preservation Act of 1974, Pub. L. 93-291; 16 U.S.C. § 469a-1.

2. Clean Air Act, Pub. L. 95-95, as amended; 42 U.S.C. § 7401 et. seq.

3. Clean Water Act, Titles II, IV, and V, Pub. L. 92-500, as amended.

4. Coastal Barrier Resources Act, Pub. L. 97-348; 16 U.S.C. § 3501 et. seq.

5. Coastal Zone Management Act, Pub. L. 92-583, as amended; 16 U.S.C. § 1451 et. seq.

6. Endangered Species Act, Pub. L. 93-205, as amended; 16 U.S.C. § 1531 et seq.

7. Environmental Justice, Executive Order 12898.

8. Farmland Protection Policy Act, Pub. L. 97-98; 7 U.S.C. § 4201 et seq.

9. Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended.

10. Floodplain Management, Executive Order 11988, as amended by Executive Order 12148.

11. Magnunson-Stevens Fishery Conservation and Management Act, Pub L. 94-265, as amended; 16 U.S.C. § 1801 et. seq.

12. National Historic Preservation Act of 1966, Pub. L. 89-665, as amended; 16 U.S.C. § 470 et. seq.

13. Protection and Enhancement of the Cultural Environment, Executive Order 11593.

14. Protection of Wetlands, Executive Order 11990, as amended by Executive Order 12608; Pub. L. 99-645, as codified at 16 U.S.C. § 3901 et. seq.

15. Safe Drinking Water Act, Section 1424(e), Pub. L. 92-523, as amended; 42 U.S.C. § 300f et. seq.

16. Wild and Scenic Rivers Act, Pub. L. 90-542, as amended; 16 U.S.C. § 1271 et. seq.

17. Migratory Bird Treaty Act of 1918, 16 U.S.C. § 703 et. seq.

<u>Social Legislation</u>:

1. Age Discrimination Act, Pub. L. 94-135; 42 U.S.C. § 6102.

2. Civil Rights Act of 1964, Pub. L. 88-352, Title VI; 42 U.S.C. § 2000d.

3. Equal Employment Opportunity, Executive Order 11246, as amended.

4. Participation by Disadvantaged Business Enterprises in Procurement Under Environmental Protection Agency (EPA) Financial Assistance Agreements.

    a. Promoting the use of Small, Minority, and Women-owned Businesses, Executive Orders 11625, 12138 and 12432.

    b. Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590.

    c. Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1993, Pub. L. 102-389; 42 U.S.C. § 4370d.

    d. Title X Clean Air Act, Pub. L. 101-549; 42 U.S.C. § 7601 note.

5. Rehabilitation Act of 1973, Pub. L. 93-112; 29 U.S.C. § 794 (including Executive Order 11914 and 11250).

6. Section 13 of the Federal Water Pollution Control Act, Pub. L. 92-500; 33 U.S.C. § 1251.

7. The Drug Free Workplace Act Of 1988, Pub. L. 100-690.

<u>Economic and Miscellaneous Authority</u>:

1. Anti-Lobbying Provision (40 CFR Part 34) and New Restrictions on Lobbying, Section 319 of Pub. L. 101-121.

2. Debarment and Suspension, Executive Order 12549.

3. Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended; 42 U.S.C. § 3331 et. seq.

4. Preservation of Open Competition and Government Neutrality, Executive Order 13502.

5. Prohibitions relating to violators of the Clean Air Act, Section 306 of the Clean Air Act, 42 U.S.C. § 7505; Section 508 of the Clean Water Act, 33 U.S.C. § 1368; Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.

6. Uniform Relocation and Real Property Acquisition Policies Act of 1970, Pub. L. 91-646, as amended; 42 U.S.C. §§ 4601-4655.

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TOWN COUNCIL
AGENDA ITEM STAFF REPORT

AGENDA ITEM # 6b
MEETING DATE: 6/9/2026
CONTACT PERSON: Katie Pehl, Finance Director
ITEM TYPE: Action Item

AGENDA ITEM TITLE:
Consideration and possible action to approve Resolution No. 2026-1319 adopting the PSPRS Pension Funding Policy and authorizing the use of $250,000 out of the Town's General Fund Contingency Account to reduce the Public Safety Personnel Retirement System (PSPRS) unfunded liability amount.

SUMMARY:
The Chino Valley Police Department's retirement benefits are administered through the Arizona Public Safety Personnel Retirement System (PSPRS). This system is subject to an annual actuarial valuation that assesses the health of the pension fund by measuring funding progress and establishing the required contribution rates for the upcoming fiscal year. As part of maintaining fiscal responsibility, the Town annually reviews and revises its Pension Funding Policy based on the latest actuarial results from PSPRS.

Starting in Fiscal Year 2018, the Town implemented a strategy of making additional payments towards the plan's previously unfunded liabilities. These efforts have markedly improved the financial standing of the fund, with the funded ratio climbing from 55.5% to 89.6%. The ultimate goal is to fully fund the pension plan by 2036, achieving 100% funded status. To further this goal, it is crucial for the Town to continue increasing its annual contributions. As of June 30, 2025, the PSPRS reported an unfunded liability amounting to $1,491,119. By increasing the annual contributions, the Town aims to progressively decrease this unfunded liability, thereby strengthening the plan's financial security.

For the current fiscal year, the Town has approximately $559,000 in unspent contingency funds within the General Fund. These funds were originally budgeted to address unforeseen expenditures but were not utilized. Rather than allowing these funds to revert to the fund balance without a targeted purpose, staff recommends reallocating $250,000 from them directly to reduce the PSPRS unfunded liability, similar to what has been done in past years. This proposed action offers several benefits:

- Strengthens the Town’s financial position by reducing long-term pension obligations;
- Demonstrates prudent fiscal stewardship by utilizing available resources for high-impact priorities;
- Supports public safety personnel by reinforcing the long-term viability of their retirement system;
- Potentially lowers future required contributions, thereby freeing up future budget capacity.

Staff believe this aligns with the Town’s commitment to responsible financial management and investment in employee-related obligations. Accordingly, staff is seeking Council approval to authorize the transfer of $250,000 in unused General Fund contingency funds to be applied directly to the PSPRS unfunded liability and approve Resolution No. 2026-1319 adopting the PSPRS Pension Funding Policy.

PREVIOUS ACTION:
N/A

STAFF RECOMMENDATION:
Approve Resolution No. 2026-1319 adopting the PSPRS Pension Funding Policy and authorizing the use of $250,000 out of the Town's General Fund Contingency Account to reduce the Public Safety Personnel Retirement System (PSPRS) unfunded liability amount.

FISCAL IMPACT?
The proposed allocation of $250,000 in unused General Fund contingency funds will not affect current operational budgets and will positively impact the Town’s long-term financial position by reducing the PSPRS unfunded liability.

ATTACHMENTS:

1.	RES 2026-1319 - FY 2025-26 Pension Funding Policy
2.	Exhibit A - FY 2025-2026 Pension Funding Policy
3.	109 2025_PSPRS-Valuation-ChinoValleyPoliceDept

RESOLUTION NO. 2026-1319

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CHINO VALLEY, ARIZONA, ADOPTING A PENSION FUNDING POLICY.

WHEREAS, the Fifty-Third Legislature, during the 2018 Second Regular Session, adopted House Bill 2097, which requires the Town of Chino Valley (the "Town") to annually adopt a pension funding policy for public safety employees participating in the Public Safety Personnel Retirement System (PSPRS") who were hired before July 1, 2017; and

WHEREAS, the Mayor and Council of the Town of Chino Valley (the "Town Council") desires to adopt the required annual policy (the "Pension Funding Policy") and to determine the amount to be contributed for Fiscal Year 2025-2026 beyond the Town's annual required contribution to continually reduce the amount of the Town's unfunded liability until the funding ratio of 100% is achieved; and

WHEREAS, at its regular meeting on June 9, 2026, the Town Council authorized using $250,000 from the Town's General Fund Contingency Account for Fiscal Year 2025-2026 to reduce the PSPRS unfunded liability amount consistent with the Pension Funding Policy.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Common Council of the Town of Chino Valley, Arizona, as follows:

SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. The Fiscal Year 2025-2026 Pension Funding Policy is hereby adopted in substantially the form attached hereto as Exhibit A and incorporated herein by reference.

SECTION 3. Prior to the end of each fiscal year following adoption of this resolution, the Town Manager and the Town Finance Director shall prepare a recommendation for action by the Town Council to (i) approve the amount of the unfunded liability contribution for that year; and (ii) update and re-adopt the Pension Funding Policy to account for the additional annual contribution.

SECTION 4. The Mayor, the Town Manager, the Town Clerk, and the Town Attorney are hereby authorized and directed to take all steps necessary to carry out the purpose and intent of this resolution.

[SIGNATURES ON FOLLOWING PAGE]

PASSED AND ADOPTED by the Mayor and Common Council of the Town of Chino Valley, Arizona, this 9th day of June 2026.

____
Tom Armstrong, Mayor

ATTEST:

____
Erin N. Deskins, Town Clerk

APPROVED AS TO FORM:

____
Andrew J. McGuire, Town Attorney
Gust Rosenfeld, P.L.C.

I hereby certify that the above foregoing Resolution No. 2026-1319 was duly passed by the Council of the Town of Chino Valley, Arizona, at a regular meeting held on June 9, 2026, and that quorum was present thereat and that the vote thereon was ____ ayes, ____ nays, and ____ abstentions. ____ Council members were absent or excused.

____
Erin N. Deskins, Town Clerk

EXHIBIT A
TO
RESOLUTION NO. 2026-1319

[FY 2025-2026 Pension Funding Policy]

See following pages.

Town Of Chino Valley
Public Safety Personnel Retirement System
Pension Funding Policy
Fiscal Year 2025-2026

The intent of this policy is to clearly communicate the Council's pension funding objectives, its commitment to our employees, and the sound financial management of the Town, and to comply with statutory requirements of A.R.S. § 38-863.01, as amended.

Several terms are used throughout this policy:

Unfunded Actuarial Accrued Liability (UAAL) – Is the difference between trust assets and the estimated future cost of pensions earned by employees. This UAAL results from actual results (interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations.

Annual Required Contribution (ARC) – Is the annual amount required to pay into the pension funds, as determined through annual actuarial valuations. It is comprised of two primary components: normal pension cost – which is the estimated cost of pension benefits earned by employees in the current year; and amortization of UAAL – which is the cost needed to cover the unfunded portion of pensions earned by employees in previous years. The UAAL is collected over a period of time referred to as the amortization period. The ARC is a percentage of the current payroll.

Funded Ratio – Is a ratio of fund assets to actuarial accrued liability. The higher the ratio, the better funded the pension is, with 100% being fully funded.

Intergenerational equity – Ensures that no generation is burdened by substantially more or less pension costs than past or future generations.

The Town's police employees regularly assigned to hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

Public Safety Personnel Retirement System (PSPRS)

PSPRS is administered as an agent multiple-employer pension plan. An agent multiple-employer plan has two main functions: 1) to comingle assets of all plans under its administration, thus achieving economy of scale for more cost-efficient investments, and invest those assets for the benefit of all members under its administration; and 2) serve as the statewide uniform administrator for the distribution of benefits.

Under an agent multiple-employer plan, each agency participating in the plan has an individual trust fund reflecting that agency's assets and liabilities. Under this plan, all contributions are deposited to, and distributions are made from, that fund's assets, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The Town of Chino Valley has one trust fund for police employees.

Council formally accepts the FY 2025-20265 assets, liabilities, and current funding ratio of the Town's PSPRS trust funds from the June 30, 2025, actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Chino Valley Police	$12,864,098	$14,355,217	$1,491,119	89.6%
Town of Chino Valley Totals	$12,864,098	$14,355,217	$1,491,119	89.6%

PSPRS Funding Goal

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on current taxpayers. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.

The Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036. Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Chino Valley's liability.
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity.

Council plans to take the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined ARC for FY27 is $484,855 and will be able to be paid from operating funds without diminishing Town services.
- Additional payments above the ARC – Annually evaluate unexpended contingency funds in the general fund at the end of each fiscal year and make an additional payment above the ARC with a portion of the unexpended contingency funds. Based on these actions, the Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2025, Actuarial Valuation.

Arizona Public Safety Personnel Retirement System

CHINO VALLEY POLICE DEPT. (109)

Actuarial Valuation

As of June 30, 2025
Contributions Applicable to the Plan/
Fiscal Year Ending June 30, 2027

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

November 2025

Board of Trustees
Arizona Public Safety Personnel Retirement System

Re: Actuarial Valuation as of June 30, 2025 for Chino Valley Police Dept. (109)

Dear Members of the Board,

This report details the annual actuarial valuation of the Arizona Public Safety Personnel Retirement System (PSPRS) as of June 30, 2025. The valuation was performed to measure the plan's liability and funding levels and to determine the actuarially appropriate funding requirements for the applicable plan year. This report was prepared for use by the Board and those designated or approved by the Board. Use of the results for other purposes may not be applicable and could produce significantly different results.

DATA AND ASSUMPTIONS

In preparing this report, we have relied on personnel, plan design, and asset information supplied by PSPRS. In our opinion, the assumptions used in the valuation, as adopted by the Board, represent reasonable expectations of anticipated fund experience. Other sets of assumptions and methods could also be reasonable and could produce materially different results. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

DISCLOSURES AND LIMITATIONS

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law. Due to the limited scope of this report, we did not provide an analysis of these potential differences.

The computed contribution rates shown in the "Contribution Results" section should be considered minimum contribution rates that comply with the Board's funding policy and Arizona Statutes. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

The funding percentages and unfunded accrued liability as measured based on the actuarial value of assets will differ from similar measures based on the market value of assets. These measures, as provided, are appropriate for determining the adequacy of future contributions, but may not be appropriate for the purpose of settling a portion or all of its liabilities.

This valuation assumes the continuing ability of the participating employers to make the contributions necessary to fund this plan. A determination regarding whether or not the participating employers are actually able to do so is outside our scope of expertise. Consequently, we did not perform such an analysis.

In performing the analysis, we used third-party software to model (calculate) the underlying liabilities and costs. These results are reviewed in the aggregate and for individual sample lives. The output from the software is either used directly or input into internally developed models to generate the costs. All internally developed models are reviewed as part of the process. As a result of this review, we believe that the models have produced reasonable results. We do not believe there are any material inconsistencies among assumptions or unreasonable output produced due to the aggregation of assumptions.

ACTUARIAL CERTIFICATION

The valuation has been conducted in accordance with all applicable laws and regulations, as well as generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board; specifically No. 6 for Measuring Retiree Group Benefit Obligations/No. 4 for Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, No. 23 for Data Quality, No. 27 for Selection of Economic Assumptions for Measuring Pension Obligations, No. 35 for Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, No. 44, Selection and Use of Asset Valuation Methods for Pension Valuations, and No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations.

In our opinion, the Minimum Required Contribution set forth in this report constitutes a reasonable actuarially determined contribution under Actuarial Standard of Practice No. 4.

The undersigned are familiar with the immediate and long-term aspects of pension/OPEB valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster, Inc. working on this report has any direct financial interest or indirect material interest in the Arizona Public Safety Personnel Retirement System, nor does anyone at Foster & Foster, Inc. act as a member of the PSPRS Board of Trustees. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

Respectfully submitted,
Foster & Foster, Inc.

Bradley R. Heinrichs, FSA, EA, MAAA	Paul M. Baugher, FSA, EA, MAAA

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SUMMARY

The regular annual actuarial valuation of the Arizona Public Safety Personnel Retirement System for the Chino Valley Police Dept., performed as of June 30, 2025, has been completed and the results are presented in this Report. The purpose of this valuation is to:

- Compute the employers' recommended contribution rates for the fiscal year ending June 30, 2027. This information is contained in the section entitled "Contribution Results".
- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and active members and compare accumulated assets with the liabilities to assess the funded condition. This information is contained in the section entitled "Liability Support."

Valuation Date Applicable to Fiscal Year Ending	June 30, 2025 2027	June 30, 2024 2026
EMPLOYER CONTRIBUTION REQUIREMENTS (AS A PERCENTAGE OF PAYROLL)		
Tiers 1 & 2 Members		
Pension	17.83%	22.51%
Health	0.00%	0.00%
Total	17.83%	22.51%
Tier 3 Members [1]		
Pension	8.58%	8.41%
Health	0.11%	0.11%
Total	8.69%	8.52%
FUNDED STATUS		
Tiers 1 & 2 Members		
Pension	89.6%	84.0%
Health	178.6%	177.0%
Total	90.9%	85.3%
Tier 3 Members		
Pension	102.4%	107.9%
Health	198.3%	216.2%
Total	103.6%	109.5%

[1] The Tier 3 rates shown are the calculated rates as of the valuation date and do not reflect any Legacy costs that the employer must also contribute.

CHANGES FROM PRIOR YEAR

Changes in the results from the prior year's valuation can be illustrated in the following tables along with high-level explanations for the entire System below:

CONTRIBUTION RATE

	Tiers 1 & 2		Tier 3 Members	
	Pension	Health	Pension	Health
Contribution Rate Last Valuation	22.51%	0.00%	8.41%	0.11%
Asset Experience	(0.33%)	(0.01%)	(0.17%)	0.00%
Payroll Base	(0.72%)	0.03%	0.00%	0.00%
Liability Experience	0.76%	0.00%	(0.32%)	0.00%
Additional Contribution	(2.97%)	0.00%	0.00%	0.00%
Assumption/Method Change	0.00%	0.00%	0.00%	0.00%
Compensation Limit Update	0.00%	0.00%	0.67%	0.00%
Other	(1.42%)	(0.02%)	(0.01%)	0.00%
Contribution Rate This Valuation	17.83%	0.00%	8.58%	0.11%

FUNDED STATUS

	Tiers 1 & 2		Tier 3 Members	
	Pension	Health	Pension	Health
Funded Status Last Valuation	84.0%	177.0%	107.9%	216.2%
Asset Experience	0.6%	1.3%	1.9%	4.1%
Liability Experience	(1.3%)	0.9%	3.6%	0.7%
Additional Contribution	4.5%	0.0%	0.0%	0.0%
Assumption/Method Change	0.0%	0.0%	0.0%	0.0%
Compensation Limit Update	0.0%	0.0%	0.0%	0.0%
Other	1.8%	(0.6%)	(11.0%)	(22.7%)
Funded Status This Valuation	89.6%	178.6%	102.4%	198.3%

Asset Experience – Asset gains and losses (relative to the assumed earnings rate) are smoothed over seven years for Tiers 1 and 2 and over five years for Tier 3. The return on the market value of assets for the year ending June 30, 2025 was 11.0% for Tiers 1 and 2 and 12.5% for Tier 3. On a smoothed, actuarial value of assets basis, the average return was 7.9% for Tiers 1 and 2 and 9.2% for Tier 3. The returns exceeded the 2024 assumed earnings rate for Tiers 1 and 2 of 7.2% and the 2024 assumed earnings rate for Tier 3 of 7.0%.

Payroll Base – Under the current amortization policy for Tiers 1 and 2, the contribution rate is developed as a level percentage of payroll. Payroll for this purpose includes members of this plan and the defined contribution plan's members that would have been in this plan. To the extent that actual payroll is lower/greater than last year's projected payroll, the contribution rate will increase/decrease as a result.

Liability Experience – Experience overall was unfavorable, with key sources of loss coming from inactive mortality, actual COLAs, and other data changes.

Additional Contribution – Monies contributed in excess of the required contribution rate in order to pay down the unfunded liability.

Assumption / Method Change – The Board continued the decrease in the payroll growth assumption from 1.50% to 0.75%.

Compensation Limit Update – The Tier 3 compensation limit was updated, as scheduled, with a sizable increase over expectation.

Other – This is the combination of all other factors that could impact liabilities year-over-year, with the primary sources being changes in benefits for continuing inactives. Tier 3 members were also impacted by the increase in the compensation limit.

CONTRIBUTION RESULTS

DEVELOPMENT OF EMPLOYER CONTRIBUTIONS – TIERS 1 & 2 MEMBERS

Valuation Date	June 30, 2025		June 30, 2024	
Applicable to Fiscal Year Ending	2027		2026	
	Rate	Dollar	Rate	Dollar
PENSION				
Normal Cost				
Total Normal Cost	19.21%	$ 236,578	20.45%	$ 248,481
Employee Cost	(7.65%)	(94,212)	(7.65%)	(92,952)
Employer (Net) Normal Cost	11.56%	142,366	12.80%	155,529
Amortization of Unfunded Liability	6.27%	77,217	9.71%	117,983
Total Employer Cost (Pension)	17.83%	219,583	22.51%	273,512
HEALTH				
Normal Cost	0.39%	4,803	0.42%	5,103
Amortization of Unfunded Liability	(0.39%)	(4,803)	(0.42%)	(5,103)
Total Employer Cost (Health)	0.00%	0	0.00%	0
Total Employer Cost (Pension + Health)	**17.83%**	**219,583**	**22.51%**	**273,512**
Alternate Contribution Rate (ACR) [1]	8.00%		9.71%	
Underlying Payroll (as of valuation date)		1,222,367		1,197,107

The results above are based on the current amortization schedule approved by the Board of Trustees for your individual plan (see "Actuarial Assumptions and Methods").

[1] The Alternate Contribution Rate is the sum of the positive amortization rates for Tiers 1 & 2 Pension and Health (subject to an 8% minimum) and is charged when retirees return to active status.

DEVELOPMENT OF EMPLOYER CONTRIBUTIONS – TIER 3 DEFINED BENEFIT (DB) MEMBERS

Valuation Date	June 30, 2025		June 30, 2024	
Applicable to Fiscal Year Ending	2027		2026	
	Rate	Dollar	Rate	Dollar
PENSION				
Total Normal Cost	17.15%	$ 236,453	16.82%	$ 198,899
Amortization of Unfunded Liability	0.00%	0	0.00%	0
Total Pension Cost	17.15%	236,453	16.82%	198,899
HEALTH				
Total Normal Cost	0.21%	2,895	0.22%	2,602
Amortization of Unfunded Liability	0.00%	0	0.00%	0
Total Health Cost	0.21%	2,895	0.22%	2,602
TOTAL				
Calculated Tier 3 Required EE/ER Individual Cost	8.69%	119,675	8.52%	100,751
Funding Policy Tier 3 Required EE/ER Individual Cost [1]	8.66%	119,399	8.69%	102,760
ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities [2]	6.27%	86,447	9.71%	114,822
Funding Policy Tier 3 ER Defined Benefit Cost	**14.93%**	**205,845**	**18.40%**	**217,582**
Underlying Payroll (as of valuation date)		1,368,473		1,165,036

[1] The "Funding Policy" cost was adopted in 2023 and first reflected in the June 30, 2023 valuation. This cost is a 3-year rolling average of the actual calculated costs. The total cost is split equally between employer and employee, in compliance with state statutes. Note that pension and health monies are split differently for the two parties based on IRS requirements. More information on this breakout is included in the "Historical Summary of Rates".

[2] Pursuant to ARS § 38-843(B), the amortization of positive unfunded liabilities for Tiers 1 & 2 shall be applied to all Tier 3 payroll on a level percent basis. However, while it is statutorily required to present the rates in this manner, these are the minimums where alternate methods for paying down that unfunded liability is at the discretion of each employer. Further, to understand the effects of reform in relation to Tier 3, compare the total rate of Tier 3 before application of those legacy costs.

DEVELOPMENT OF CONTRIBUTIONS – TIER 3 DEFINED CONTRIBUTION (DC) MEMBERS

Valuation Date	June 30, 2025		June 30, 2024	
Applicable to Fiscal Year Ending	2027		2026	
	Rate	Dollar	Rate	Dollar
TIER 2 & 3 DB / NON-SOCIAL SECURITY				
Employee Cost	3.00%		3.00%	
Employer Cost [1]	3.00%		3.00%	
TIER 3 DC ONLY				
Employee Cost	9.00%	$ 13,400	9.00%	$ 12,583
Employee Health Subsidy Program Cost	0.18%	268	0.20%	280
Employee Disability Program Cost	1.60%	2,382	1.54%	2,153
Total Employee Cost	**10.78%**	**16,050**	**10.74%**	**15,016**
Employer Cost	9.00%	13,400	9.00%	12,583
Employer Health Subsidy Program Cost	0.18%	268	0.20%	280
Employer Disability Program Cost	1.60%	2,382	1.54%	2,153
Total Employer Cost (before Legacy)	**10.78%**	**16,050**	**10.74%**	**15,016**
ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities [2]	6.27%	9,335	9.71%	13,576
Total Employer Cost (with Legacy)	**17.05%**	**25,385**	**20.45%**	**28,592**
Underlying Payroll (as of valuation date)		147,783		137,745

[1] Employer rate is 4% for Tier 2 members for a period of time depending on the individual's membership date.

[2] Pursuant to ARS § 38-843(B), the amortization of positive unfunded liabilities for Tiers 1 & 2 shall be applied to all Tier 3 payroll on a level percent basis. However, while it is statutorily required to present the rates in this manner, these are the minimums where alternate methods for paying down that unfunded liability is at the discretion of each employer. Further, to understand the effects of reform in relation to Tier 3, compare the total rate of Tier 3 before application of those legacy costs.

CONTRIBUTION RATE SUMMARY

	Tier 1	Tier 2		Tier 3		
Membership Date On or After	7/1/1968	1/1/2012		7/1/2017		
Participates in Social Security	N/A	Yes	No	Yes	No	N/A
Available Retirement Plan [1]	DB Only	DB Only	Hybrid	DB Only	Hybrid	DC Only
EMPLOYEE CONTRIBUTION RATE						
PSPRS DB Rate	7.65%	7.65%	7.65%	8.66%	8.66%	
PSPRS DC Rate			3.00%		3.00%	9.00%
Employer Health Subsidy Program Cost						0.18%
PSPDCRP Disability Program Rate						1.60%
Total EE Contribution Rate	7.65%	7.65%	10.65%	8.66%	11.66%	10.78%
EMPLOYER CONTRIBUTION RATE						
PSPRS DB Normal Cost	11.95%	11.95%	11.95%	8.66%	8.66%	
PSPRS DB Tier 1 & 2 Legacy Cost [2]	5.88%	5.88%	5.88%	6.27%	6.27%	6.27%
PSPRS DC Rate			3.00%		3.00%	9.00%
Employer Health Subsidy Program Cost						0.18%
PSPDCRP Disability Program Rate						1.60%
Total ER Contribution Rate	17.83%	17.83%	20.83%	14.93%	17.93%	17.05%
Employer Alternate Contribution Rate [3]	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Exhibit summarizes employee and employer contributions based on Statute and the results of June 30, 2025 actuarial valuation. Pension and health components are combined, where applicable.

[1] Employers that pay into Social Security on behalf of their members do not participate in the Hybrid Plan.

[2] Per statute (ARS § 38-843(B)), any positive unfunded liability for Tiers 1 and 2 is to be applied to all Tier 3 (DB and DC) payrolls

[3] The Alternate Contribution Rate is the sum of the positive amortization rates for Tiers 1 & 2 Pension and Health (subject to an 8% minimum) and is charged when retirees return to active status.

IMPACT OF ADDITIONAL CONTRIBUTIONS

	Additional Contribution (000s)										
Impact On	$0	$100	$200	$300	$400	$500	$600	$700	$800	$900	$1,000
Funded Status - June 30, 2025	89.6%	90.3%	91.0%	91.7%	92.4%	93.1%	93.8%	94.5%	95.2%	95.9%	96.6%
FYE 2027 Contribution Rate	17.83%	17.45%	17.08%	16.70%	16.33%	15.95%	15.57%	15.20%	14.82%	14.45%	14.07%

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2025 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2025. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

HISTORICAL SUMMARY OF RATES

			Pension			Health		
	Valuation Date June 30	Fiscal Year Ending June 30	Normal Cost	Unfunded Amortization	Total	Normal Cost	Unfunded Amortization	Total
TIERS 1 & 2	2021	2023	11.02%	21.33%	32.35%	0.56%	(0.56%)	0.00%
(Employer)	2022	2024	11.38%	15.23%	26.61%	0.49%	(0.49%)	0.00%
	2023	2025	12.63%	17.92%	30.55%	0.45%	(0.45%)	0.00%
	2024	2026	12.80%	9.71%	22.51%	0.42%	(0.42%)	0.00%
	2025	2027	11.56%	6.27%	17.83%	0.39%	(0.39%)	0.00%
TIER 3 [1]	2021	2023	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
(Employer)	2022	2024	9.30%	0.00%	9.30%	0.26%	0.00%	0.26%
	2023	2025	8.77%	0.00%	8.77%	0.12%	0.00%	0.12%
	2024	2026	8.46%	0.00%	8.46%	0.23%	0.00%	0.23%
	2025	2027	8.43%	0.00%	8.43%	0.23%	0.00%	0.23%
TIER 3	2021	2023	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
(Employee)	2022	2024	9.30%	0.00%	9.30%	0.26%	0.00%	0.26%
	2023	2025	8.77%	0.00%	8.77%	0.12%	0.00%	0.12%
	2024	2026	8.69%	0.00%	8.69%	0.00%	0.00%	0.00%
	2025	2027	8.66%	0.00%	8.66%	0.00%	0.00%	0.00%

[1] All Tier 3 rates shown (employer and employee) are Board approved Funding Policy rates. Starting in 2023, these rates are a 3-year rolling average of calculated EE/ER rates. Does not reflect Legacy costs that the employer must also contribute.

LIABILITY SUPPORT

LIABILITIES AND FUNDED RATIOS BY BENEFIT - TIERS 1 & 2

	June 30, 2025	June 30, 2024
PENSION		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	$ 9,167,126	$ 8,187,802
DROP Members	0	1,188,411
Vested Members	688,042	609,006
Active Members	5,761,875	5,287,031
Total Actuarial Present Value of Benefits	15,617,043	15,272,250
Actuarial Accrued Liability (AAL)		
All Inactive Members	9,855,168	9,985,219
Active Members	4,500,049	3,840,759
Total Actuarial Accrued Liability	14,355,217	13,825,978
Actuarial Value of Assets (AVA)	12,864,098	11,614,444
Unfunded Actuarial Accrued Liability	1,491,119	2,211,534
PVB Funded Ratio (AVA / PVB)	82.4%	76.0%
AAL Funded Ratio (AVA / AAL)	89.6%	84.0%
HEALTH		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	$ 100,364	$ 87,579
DROP Members	0	16,257
Active Members	130,078	122,841
Total Present Value of Benefits	230,442	226,677
Actuarial Accrued Liability (AAL)		
All Inactive Members	100,364	103,836
Active Members	104,200	92,608
Total Actuarial Accrued Liability	204,564	196,444
Actuarial Value of Assets (AVA)	365,265	347,635
Unfunded Actuarial Accrued Liability	(160,701)	(151,191)
PVB Funded Ratio (AVA / PVB)	158.5%	153.4%
AAL Funded Ratio (AVA / AAL)	178.6%	177.0%

Health liabilities were increased by $4,616 under the lateral transfer methodology. Pension liabilities were not impacted.

LIABILITIES AND FUNDED RATIOS BY BENEFIT - TIER 3

	June 30, 2025	June 30, 2024
PENSION		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	$ 7,291,337	$ 7,268,826
Vested Members	14,157,384	9,523,410
Active Members	986,667,595	710,626,649
Total Actuarial Present Value of Benefits	1,008,116,316	727,418,885
Actuarial Accrued Liability (AAL)		
All Inactive Members	21,448,721	16,792,236
Active Members	225,991,622	148,879,454
Total Actuarial Accrued Liability	247,440,343	165,671,690
Actuarial Value of Assets (AVA)	253,309,023	178,758,433
Unfunded Actuarial Accrued Liability	(5,868,680)	(13,086,743)
PVB Funded Ratio (AVA / PVB)	25.1%	24.6%
AAL Funded Ratio (AVA / AAL)	102.4%	107.9%
HEALTH		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	$ 33,666	$ 34,351
Active Members	12,076,315	9,825,773
Total Present Value of Benefits	12,109,981	9,860,124
Actuarial Accrued Liability (AAL)		
All Inactive Members	33,666	34,351
Active Members	3,279,150	2,398,606
Total Actuarial Accrued Liability	3,312,816	2,432,957
Actuarial Value of Assets (AVA)	6,568,894	5,259,235
Unfunded Actuarial Accrued Liability	(3,256,078)	(2,826,278)
PVB Funded Ratio (AVA / PVB)	54.2%	53.3%
AAL Funded Ratio (AVA / AAL)	198.3%	216.2%

The liabilities shown on this page are the liabilities for all Tier 3 members grouped together in the Risk Sharing group. These liabilities are NOT the liabilities solely for Chino Valley Police Dept. Tier 3 members.

DERIVATION OF EXPERIENCE (GAIN)/LOSS

		Tiers 1 & 2		Tier 3	
		Pension	Health	Pension	Health
(1)	Unfunded Actuarial Accrued Liability as of June 30, 2024	2,211,534	(151,191)	(13,086,743)	(2,826,278)
(2)	Normal Cost Developed in Last Valuation	155,529	5,103	25,222,643	329,904
(3)	Actual Contributions	1,272,193	0	28,231,800	783,130
(4)	Expected Interest On (1), (2), and (3)	125,426	(10,518)	(124,896)	(207,442)
(5)	Expected Unfunded Actuarial Accrued Liability as of June 30, 2025: (1)+(2)-(3)+(4)	1,220,296	(156,606)	(16,220,796)	(3,486,946)
(6)	Changes to UAAL Due to Assumptions, Methods and Benefits	0	0	0	0
(7)	Change to UAAL Due to Actuarial (Gain)/Loss	270,823	(4,095)	10,352,116	230,868
(8)	Unfunded Actuarial Accrued Liability as of June 30, 2025	1,491,119	(160,701)	(5,868,680)	(3,256,078)

Amortization of Unfunded Liabilities - Tiers 1 & 2

	Date Established	Outstanding Balance	Years Remaining	Amortization Rate
Pension	6/30/2019	0	11	0.00%
	6/30/2021	507,750	11	2.33%
	6/30/2022	(405,954)	12	(1.76%)
	6/30/2023	1,097,887	13	4.53%
	6/30/2024	449,504	14	1.77%
	6/30/2025	(158,068)	15	(0.60%)
	Total	1,491,119		6.27%
Health	6/30/2019	0	10	0.00%
	6/30/2021	0	10	0.00%
	6/30/2022	0	10	0.00%
	6/30/2023	0	10	0.00%
	6/30/2024	0	10	0.00%
	6/30/2025	(134,823)	10	(0.66%)
	Total	(134,823)		(0.66%)

Amortization of Unfunded Liabilities - Tier 3

	Date Established	Outstanding Balance	Years Remaining	Amortization Rate [1]
Pension	6/30/2018	73,371	3	0.01%
	6/30/2019	(738,175)	4	(0.06%)
	6/30/2020	538,283	5	0.03%
	6/30/2021	(1,923,660)	6	(0.10%)
	6/30/2022	(3,334,717)	7	(0.16%)
	6/30/2023	(1,260,287)	8	(0.05%)
	6/30/2024	(5,258,441)	9	(0.21%)
	6/30/2025	6,034,946	10	0.22%
	Total	(5,868,680)		0.00%
Health	6/30/2018	(1,556)	3	0.00%
	6/30/2019	(67,490)	4	(0.01%)
	6/30/2020	(136,697)	5	(0.01%)
	6/30/2021	(277,936)	6	(0.01%)
	6/30/2022	(396,707)	7	(0.02%)
	6/30/2023	(639,631)	8	(0.03%)
	6/30/2024	(1,050,040)	9	(0.04%)
	6/30/2025	(686,021)	10	(0.02%)
	Total	(3,256,078)		0.00%

[1] By Statute, negative total amortization rates are not subtracted in Tier 3 rate calculations.

ASSET SUPPORT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR YEAR ENDED JUNE 30, 2025

	Tiers 1 & 2		Tier 3	
	Pension	Health	Pension	Health
ADDITIONS				
Contributions				
Member Contributions	$ 108,640,873	$ 0	$ 61,005,633	$ 0
Employer Contributions	1,069,823,308	0	59,252,766	0
Health Insurance Contributions	0	4,098,668	0	1,553,978
Total Contributions	1,178,464,181	4,098,668	120,258,399	1,553,978
Investment Income				
Net Increase in Fair Value	1,390,120,909	34,877,805	45,105,036	1,105,501
Interest and Dividends	259,062,270	6,499,811	8,405,753	206,021
Other Income	150,210,467	3,767,860	4,873,856	119,427
Less Investment Expenses	(35,364,426)	(728,394)	(1,147,464)	(23,087)
Net Investment Income	1,764,029,220	44,417,082	57,237,181	1,407,862
Non-investment Income	0	0	0	0
Transfers In	288,360	0	206,733	0
Total Additions	2,942,781,761	48,515,750	177,702,313	2,961,840
DEDUCTIONS				
Distributions to Members				
Benefit Payments	1,218,594,305	0	852,434	0
Health Insurance Subsidy	0	18,660,709	0	6,480
Refund of Contributions	12,178,168	0	2,803,612	0
Total Distributions	1,230,772,473	18,660,709	3,656,046	6,480
Administrative Expenses	7,838,369	201,658	254,475	6,392
Transfers Out	67,338	0	0	0
Other	0	0	0	0
Total Deductions	1,238,678,180	18,862,367	3,910,521	12,872
NET INCREASE / (DECREASE)	1,704,103,581	29,653,383	173,791,792	2,948,968
NET POSITION HELD IN TRUST				
Prior Valuation	15,933,751,686	411,840,936	398,698,171	11,044,818
Beginning of the Year Adjustment	0	0	0	0
End of the Year	17,637,855,267	441,494,319	572,489,963	13,993,786

Development of Pension Actuarial Value of Assets - Tiers 1 & 2

A. Investment Income	
A1. Actual Investment Income	$ 1,756,190,851
A2. Expected Amount for Immediate Recognition	1,145,387,569
A3. Amount Subject to Amortization	610,803,282

	Year Ended June 30						
B. Amortization Schedule	2025	2026	2027	2028	2029	2030	2031
2025 Experience (A3 / 7)	87,257,612	87,257,612	87,257,612	87,257,612	87,257,612	87,257,612	87,257,610
2024 Experience	62,439,795	62,439,795	62,439,795	62,439,795	62,439,795	62,439,792	
2023 Experience	10,197,720	10,197,720	10,197,720	10,197,720	10,197,717		
2022 Experience	(204,451,249)	(204,451,249)	(204,451,249)	(204,451,249)			
2021 Experience	238,978,744	238,978,744	238,978,745				
2020 Experience	(68,882,158)	(68,882,160)					
2019 Experience	(22,859,275)						
Total Amortization	102,681,189	125,540,462	194,422,623	(44,556,122)	159,895,124	149,697,404	87,257,610

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, June 30, 2024	15,769,616,678	
C2. Non-investment Net Cash Flow	(52,087,270)	
C3. Preliminary Actuarial Value of Assets, June 30, 2025: (A2 + B + C1 + C2)	16,965,598,166	
C4. Market Value of Assets, June 30, 2025	17,637,855,267	13,373,834
C5. Final Actuarial Value of Assets, June 30, 2025 (C3 Within 20% Corridor of C4)	16,965,598,166	12,864,098

D. Rates of Return	
D1. Market Value Rate of Return	11.0%
D2. Actuarial Value Rate of Return	7.9%

DEVELOPMENT OF HEALTH ACTUARIAL VALUE OF ASSETS - TIERS 1 & 2

A. Investment Income	
A1. Actual Investment Income	$ 44,215,424
A2. Expected Amount for Immediate Recognition	29,137,425
A3. Amount Subject to Amortization	15,077,999

	Year Ended June 30						
B. Amortization Schedule	2025	2026	2027	2028	2029	2030	2031
2025 Experience (A3 / 7)	2,154,000	2,154,000	2,154,000	2,154,000	2,154,000	2,154,000	2,153,999
2024 Experience	1,556,610	1,556,610	1,556,610	1,556,610	1,556,610	1,556,608	
2023 Experience	193,035	193,035	193,035	193,035	193,036		
2022 Experience	(6,416,469)	(6,416,469)	(6,416,469)	(6,416,471)			
2021 Experience	9,257,478	9,257,478	9,257,481				
2020 Experience	(2,898,713)	(2,898,716)					
2019 Experience	(1,075,572)						
Total Amortization	2,770,369	3,845,938	6,744,657	(2,512,826)	3,903,646	3,710,608	2,153,999

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, June 30, 2024	406,302,544	
C2. Non-investment Net Cash Flow	(14,562,041)	
C3. Preliminary Actuarial Value of Assets, June 30, 2025: (A2 + B + C1 + C2)	423,648,297	
C4. Market Value of Assets, June 30, 2025	441,494,319	380,652
C5. Final Actuarial Value of Assets, June 30, 2025 (C3 Within 20% Corridor of C4)	423,648,297	365,265

D. Rates of Return	
D1. Market Value Rate of Return	10.9%
D2. Actuarial Value Rate of Return	8.0%

DEVELOPMENT OF PENSION ACTUARIAL VALUE OF ASSETS - TIERS 3

A. Investment Income	
A1. Actual Investment Income	$ 56,982,706
A2. Expected Amount for Immediate Recognition	31,928,044
A3. Amount Subject to Amortization	25,054,662

	Year Ended June 30				
B. Amortization Schedule	2025	2026	2027	2028	2029
2025 Experience (A3 / 5)	5,010,932	5,010,932	5,010,932	5,010,932	5,010,934
2024 Experience	3,027,823	3,027,823	3,027,823	3,027,823	
2023 Experience	885,521	885,521	885,520		
2022 Experience	(3,259,379)	(3,259,381)			
2021 Experience	3,551,938				
Total Amortization	9,216,835	5,664,895	8,924,275	8,038,755	5,010,934

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, June 30, 2024	386,897,139	
C2. Non-investment Net Cash Flow	116,809,086	
C3. Preliminary Actuarial Value of Assets, June 30, 2025: (A2 + B + C1 + C2)	544,851,104	
C4. Market Value of Assets, June 30, 2025	572,489,963	266,158,721
C5. Final Actuarial Value of Assets, June 30, 2025 (C3 Within 20% Corridor of C4)	544,851,104	253,309,023

D. Rates of Return	
D1. Market Value Rate of Return	12.5%
D2. Actuarial Value Rate of Return	9.2%

DEVELOPMENT OF HEALTH ACTUARIAL VALUE OF ASSETS - TIERS 3

A. Investment Income	
A1. Actual Investment Income	$ 1,401,470
A2. Expected Amount for Immediate Recognition	826,384
A3. Amount Subject to Amortization	575,086

	Year Ended June 30				
B. Amortization Schedule	2025	2026	2027	2028	2029
2025 Experience (A3 / 5)	115,017	115,017	115,017	115,017	115,018
2024 Experience	84,292	84,292	84,292	84,290	
2023 Experience	23,872	23,872	23,870		
2022 Experience	(101,792)	(101,790)			
2021 Experience	128,961				
Total Amortization	250,350	121,391	223,179	199,307	115,018

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, June 30, 2024	10,710,659	
C2. Non-investment Net Cash Flow	1,547,498	
C3. Preliminary Actuarial Value of Assets, June 30, 2025: (A2 + B + C1 + C2)	13,334,891	
C4. Market Value of Assets, June 30, 2025	13,993,786	6,893,472
C5. Final Actuarial Value of Assets, June 30, 2025 (C3 Within 20% Corridor of C4)	13,334,891	6,568,894

D. Rates of Return	
D1. Market Value Rate of Return	11.9%
D2. Actuarial Value Rate of Return	9.4%

MEMBER STATISTICS

STATISTICAL DATA – ACTIVE MEMBERS

	June 30, 2025		June 30, 2024	
	Tiers 1 & 2	Tier 3	Tiers 1 & 2	Tier 3
ACTIVES				
Number	9	11	9	9
Average Current Age	46.6	31.2	45.6	31.5
Average Age at Employment	32.2	28.4	32.2	28.7
Average Past Service	14.4	2.8	13.4	2.8
Average Annual Salary	$101,849	$75,755	$93,390	$74,622
ACTIVES (TRANSFERRED)				
Number	3	6	4	6
Average Current Age	53.3	35.0	49.3	34.0
Average Age at Employment	40.3	30.7	38.9	30.7
Average Past Service	13.0	4.3	10.4	3.3
Average Annual Salary	$86,895	$77,056	$77,830	$71,504
Total Number (Active)	12	17	13	15

Statistical Data – Inactive Members

	June 30, 2025		June 30, 2024	
	Tiers 1 & 2	Tier 3	Tiers 1 & 2	Tier 3
Retirees				
Number	11	0	10	0
Average Current Age	66.6	N/A	66.0	N/A
Average Annual Benefit	$45,313	N/A	$42,680	N/A
DROP Retirees				
Number	0	N/A	1	N/A
Average Current Age	N/A	N/A	61.9	N/A
Average Annual Benefit	N/A	N/A	$62,075	N/A
Beneficiaries				
Number	1	0	1	0
Average Current Age	62.5	N/A	61.5	N/A
Average Annual Benefit	$43,942	N/A	$43,080	N/A
Disability Retirees				
Number	4	0	4	0
Average Current Age	59.9	N/A	58.9	N/A
Average Annual Benefit	$35,238	N/A	$34,547	N/A
Inactive / Vested				
Number	4	1	5	1
Average Current Age	38.8	37.1	39.8	36.1
Average Accumulated Contributions	$23,739	$4,817	$19,341	$4,817
Total Number (Inactive)	20	1	21	1
Former Members (Transferred)	5	2	3	2

ACTIVE AGE, SERVICE AND PAY DISTRIBUTIONS – TIERS 1 & 2

	Past Service									
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total Count	Total Pay	Average Pay
<20	0	0	0	0	0	0	0	0	0	0
20 - 24	0	0	0	0	0	0	0	0	0	0
25 - 29	0	0	0	0	0	0	0	0	0	0
30 - 34	0	0	0	0	0	0	0	0	0	0
35 - 39	0	2	0	0	0	0	0	2	172,046	86,023
40 - 44	0	0	0	1	0	0	0	1	93,166	93,166
45 - 49	0	2	1	1	1	0	0	5	551,599	110,320
50 - 54	0	1	0	1	0	0	0	2	176,387	88,194
55 - 59	0	0	0	2	0	0	0	2	184,132	92,066
60 - 64	0	0	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0	0	0
Total	0	5	1	5	1	0	0	12	1,177,330	98,111

ACTIVE AGE, SERVICE AND PAY DISTRIBUTIONS – TIER 3

	Past Service									
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total Count	Total Pay	Average Pay
<20	0	0	0	0	0	0	0	0	0	0
20 - 24	1	0	0	0	0	0	0	1	69,228	69,228
25 - 29	7	0	0	0	0	0	0	7	503,189	71,884
30 - 34	0	2	0	0	0	0	0	2	163,461	81,731
35 - 39	5	1	0	0	0	0	0	6	474,998	79,166
40 - 44	0	0	0	0	0	0	0	0	0	0
45 - 49	1	0	0	0	0	0	0	1	84,768	84,768
50 - 54	0	0	0	0	0	0	0	0	0	0
55 - 59	0	0	0	0	0	0	0	0	0	0
60 - 64	0	0	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0	0	0
Total	14	3	0	0	0	0	0	17	1,295,644	76,214

AGE DISTRIBUTIONS – INACTIVE MEMBERS

	Retirees, Disableds and Beneficiaries	
Age	Count	Average Annual Pensions
<40	0	0
40-45	0	0
45-49	0	0
50-54	3	34,713
55-59	3	39,523
60-64	3	45,838
65-69	1	40,114
70-74	4	46,057
75-79	1	55,413
80-84	1	43,357
85-89	0	0
90-94	0	0
95-99	0	0
100+	0	0
Total	16	42,708

ACTUARIAL ASSUMPTIONS AND METHODS

Interest Rate

This is the assumed earnings rate on System assets, compounded annually, net of investment and administrative expenses.

- **Tiers 1 & 2**: 7.20% per year.
- **Tier 3**: 7.00% per year.

Mortality Rate

Active Lives:
PubS-2010 Employee mortality, adjusted by a factor of 1.03 for male members and 1.08 for female members, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021). 100% of active deaths are assumed to be in the line of duty.

Inactive Lives:
PubS-2010 Healthy Retiree mortality, adjusted by a factor of 1.03 for male retirees and 1.11 for female retirees, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021).

Beneficiaries:
PubS-2010 Survivor mortality, adjusted by a factor of 0.98 for male beneficiaries and adjusted by a factor of 1.06 for female beneficiaries, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021).

Disabled Lives:
PubS-2010 Disabled mortality, adjusted by a factor of 1.08 for male disabled members and 1.01 for female disabled members, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021).

The mortality assumptions sufficiently accommodate anticipated future mortality improvements.

Retirement / DROP Rates

These rates are used to project future decrements from the active population due to retirement. The rates below are based on a 2022 experience study using actual plan experience.

Tier 1 – reaching age 62 before attaining 20 years of service:
Age-related rates based on age at retirement:

	Police - 40% assumed at age 62 and 63, 35% assumed at age 64, 25% assumed at ages 65 and 66, 50% assumed at ages 67 – 69, and 100% assumed at age 70. Fire - 25% assumed at age 62 and 63, 35% assumed at age 64, 25% assumed at ages 65 and 66, 50% assumed at ages 67 – 69, and 100% assumed at age 70. **Tier 1 – reaching age 62 after attaining 20 years of service:** Service-related rates based on service at retirement. See complete tables at the end of this section. 65% are assumed to enter the DROP program while the remaining 35% are assumed to retire and commence benefits immediately. DROP periods are assumed to be 5 years in length for future DROP elections. **Tiers 2 & 3:** Age-related rates based on age at retirement. 50% assumed at age 53, 30% assumed at ages 54 – 59, 60% assumed at ages 60 – 63, and 100% assumed at age 64.
Disability Rate	These rates are used to project future decrements from the active population due to disability. Complete table of rates based on age at disability are provided at the end of this section. These rates are based on a 2022 experience study using actual plan experience. 90% of disablements are assumed to be duty-related.
Termination Rate	These rates are used to project future decrements from the active population due to termination. Complete table of rates based on service at termination are provided at the end of this section. The rates apply to members prior to retirement eligibility and are based on a 2022 experience study using actual plan experience.
Inflation	2.50%.
Tier 3 Compensation Limit	$140,952 for calendar 2024. Assumed increases of 2.00% per year thereafter.
Cost-of-Living Adjustment	1.85%.

Salary Increases	See table at the end of this section. This is an annual increase for individual member's salary. These rates are based on a 2022 experience study using actual plan experience.
Marital Status	For active members, 85% of males and 60% of females are assumed to be married. Actual marital status is used, where applicable, for inactive members.
Spouse's Age	Males are assumed to be three years older than females.
Benefit Commencement	Deferred members are assumed to commence benefits as follows: • Tier 1: immediate refund of contributions • Tiers 2 & 3 (less than 15 years service): immediate refund of contributions • Tier 2 (15+ years service): life annuity payable at age 52.5 • Tier 3 (15+ years service): life annuity payable at age 55
Health Care Utilization	For active members, 70% of retirees are expected to utilize retiree health care. Actual utilization is used for inactive members.
Funding Method	Entry Age Normal Cost Method.
Lateral Transfers	When active members transfer between employers, the new employer's liability starts from their new date of hire with no past service liability (i.e., all liability is accrued through normal cost). Per PSPRS administrative decision, once the new employer's liability is fully funded, the liability will reflect all past service liability.
Actuarial Asset Method	Each year the assumed investment income is recognized in full while the difference between actual and assumed investment income are smoothed over a fixed period (7 years for Tiers 1 & 2; 5 years for Tier 3). Actuarial Assets shall not be less than 80% nor greater than 120% of the Market Value of Assets. Note that during periods when investment performance exceeds (falls short) of the assumed rate, the actuarial value of assets will tend to be less (greater) than the market value of assets.

Amortization Method	See Funding Policy for complete details. In short: **Tiers 1 & 2:** • Any positive UAAL (assets less than funding policy targets) is amortized using a layered approach according to a Level Dollar method over a closed period of 15 years (phased into from current period). • Any negative UAAL (assets greater than funding policy targets) is amortized according to a Level Dollar method over an open period of 10 years. **Tier 3:** • Any positive UAAL (assets less than liabilities) is amortized according to a Level Dollar method over a closed period of 10 years. • No amortization is made of any negative UAAL (assets greater than liabilities).
Payroll Growth	0.75% per year. This is the annual increase expected on total employer payroll.

CHANGES SINCE THE PRIOR VALUATION

The payroll growth assumption was lowered from 1.50% to 0.75%.

There were no method changes since the prior valuation.

SALARY INCREASE RATES

Age	Maricopa Police	Pima Police	Other Police	Maricopa Fire	Pima Fire	Other Fire
20	15.00%	12.00%	14.00%	15.00%	12.00%	13.00%
21	14.00%	6.00%	12.00%	14.00%	11.00%	12.00%
22	13.00%	6.00%	10.00%	13.00%	10.00%	11.00%
23	12.00%	6.00%	9.00%	12.00%	9.50%	10.00%
24	11.00%	6.00%	8.00%	11.00%	9.00%	9.00%
25	10.00%	6.00%	7.00%	10.00%	8.50%	8.00%
26	9.00%	5.50%	6.50%	9.50%	7.50%	7.50%
27	8.00%	5.50%	6.25%	9.00%	6.50%	7.50%
28	7.50%	5.50%	6.00%	8.50%	5.75%	7.00%
29	7.00%	5.50%	5.80%	8.00%	5.75%	6.50%
30	6.50%	5.25%	5.60%	8.00%	5.50%	6.50%
31	6.00%	5.25%	5.40%	7.50%	5.50%	6.00%
32	5.50%	5.00%	5.20%	7.00%	5.00%	5.50%
33	5.10%	5.00%	5.00%	6.50%	5.00%	5.50%
34	4.90%	5.00%	4.90%	6.50%	5.00%	5.50%
35	4.70%	4.50%	4.80%	6.00%	5.00%	5.50%
36	4.50%	4.50%	4.70%	5.50%	5.00%	5.50%
37	4.30%	4.50%	4.60%	5.25%	4.50%	5.00%
38	4.10%	4.00%	4.50%	5.00%	4.50%	5.00%
39	4.00%	4.00%	4.40%	4.75%	4.50%	5.00%
40	3.90%	4.00%	4.30%	4.75%	4.50%	5.00%
41	3.80%	3.80%	4.20%	4.50%	4.50%	4.50%
42	3.70%	3.60%	4.10%	4.50%	4.00%	4.50%
43	3.60%	3.40%	4.00%	4.50%	4.00%	4.50%
44	3.50%	3.20%	3.90%	4.50%	4.00%	4.00%
45	3.50%	3.00%	3.80%	4.25%	4.00%	4.00%
46	3.50%	3.00%	3.70%	4.25%	3.75%	4.00%
47	3.50%	3.00%	3.60%	4.25%	3.75%	3.75%
48	3.50%	3.00%	3.50%	4.00%	3.75%	3.75%
49	3.50%	3.00%	3.50%	4.00%	3.50%	3.75%
50	3.25%	3.00%	3.50%	3.75%	3.50%	3.75%
51	3.25%	3.00%	3.50%	3.75%	3.50%	3.75%
52	3.25%	2.75%	3.50%	3.75%	3.50%	3.75%
53+	3.25%	2.75%	3.50%	3.75%	3.25%	3.75%

TIER 1 RETIREMENT RATES– REACHING AGE 62 AFTER ATTAINING 20 YEARS OF SERVICE

Service	Maricopa Police	Pima Police	Other Police	Maricopa Fire	Pima Fire	Other Fire
20	28%	28%	35%	14%	20%	20%
21	25%	25%	35%	17%	20%	25%
22	15%	16%	22%	7%	13%	15%
23	12%	12%	12%	7%	7%	10%
24	8%	9%	12%	7%	7%	10%
25	30%	22%	25%	17%	22%	30%
26	42%	42%	40%	30%	26%	30%
27	32%	30%	28%	23%	30%	30%
28	32%	30%	28%	30%	30%	30%
29	32%	20%	28%	30%	30%	30%
30	35%	25%	35%	30%	30%	35%
31	35%	33%	30%	40%	30%	35%
32	60%	50%	70%	55%	30%	35%
33	60%	50%	70%	55%	60%	60%
34+	100%	100%	100%	100%	100%	100%

TERMINATION RATES

Service	Maricopa Police	Pima Police	Other Police	Maricopa Fire	Pima Fire	Other Fire
0	13.0%	14.0%	13.5%	4.5%	10.0%	10.5%
1	8.0%	9.0%	11.5%	3.5%	6.0%	8.5%
2	6.0%	7.5%	10.5%	2.5%	4.5%	8.0%
3	4.5%	7.0%	9.5%	2.0%	4.0%	8.0%
4	3.6%	6.5%	9.0%	1.5%	4.0%	7.0%
5	3.3%	5.0%	8.0%	1.5%	4.0%	5.0%
6	3.3%	5.0%	7.0%	1.5%	4.0%	5.0%
7	3.3%	4.0%	6.5%	1.5%	3.0%	4.0%
8	2.4%	4.0%	6.5%	1.5%	3.0%	4.0%
9	2.4%	4.0%	6.0%	1.5%	3.0%	3.5%
10	2.4%	4.0%	5.0%	1.0%	2.0%	3.0%
11	1.8%	3.0%	4.0%	1.0%	2.0%	2.5%
12	1.8%	3.0%	4.0%	1.0%	1.5%	2.0%
13	1.3%	2.0%	3.5%	1.0%	1.0%	1.5%
14	1.3%	2.0%	3.0%	0.5%	1.0%	1.4%
15	0.8%	1.5%	2.5%	0.5%	1.0%	1.4%
16	0.8%	1.5%	2.0%	0.5%	0.5%	1.4%
17	0.8%	1.0%	2.0%	0.5%	0.5%	1.4%
18	0.8%	1.0%	1.8%	0.5%	0.5%	1.4%
19	0.8%	1.0%	1.8%	0.5%	0.5%	0.5%
20+	0.5%	1.0%	1.8%	0.4%	0.5%	0.5%

DISABILITY RATES

Age	Maricopa Police	Pima Police	Other Police	Maricopa Fire	Pima Fire	Other Fire
20	0.050%	0.050%	0.120%	0.020%	0.020%	0.020%
21	0.050%	0.050%	0.120%	0.020%	0.020%	0.020%
22	0.050%	0.050%	0.120%	0.020%	0.020%	0.020%
23	0.050%	0.050%	0.120%	0.020%	0.020%	0.020%
24	0.050%	0.050%	0.120%	0.020%	0.020%	0.020%
25	0.050%	0.050%	0.120%	0.020%	0.020%	0.020%
26	0.100%	0.100%	0.160%	0.035%	0.020%	0.020%
27	0.100%	0.100%	0.160%	0.035%	0.020%	0.020%
28	0.100%	0.100%	0.160%	0.035%	0.020%	0.020%
29	0.100%	0.100%	0.160%	0.035%	0.020%	0.020%
30	0.100%	0.100%	0.160%	0.035%	0.020%	0.020%
31	0.230%	0.180%	0.240%	0.090%	0.100%	0.060%
32	0.230%	0.180%	0.240%	0.090%	0.100%	0.060%
33	0.230%	0.180%	0.240%	0.090%	0.100%	0.060%
34	0.230%	0.180%	0.240%	0.090%	0.100%	0.060%
35	0.230%	0.180%	0.240%	0.090%	0.100%	0.060%
36	0.450%	0.350%	0.320%	0.150%	0.150%	0.140%
37	0.450%	0.350%	0.320%	0.150%	0.150%	0.140%
38	0.450%	0.350%	0.320%	0.150%	0.150%	0.140%
39	0.450%	0.350%	0.320%	0.150%	0.150%	0.140%
40	0.450%	0.350%	0.320%	0.150%	0.150%	0.140%
41	0.520%	0.650%	0.550%	0.170%	0.300%	0.250%
42	0.520%	0.650%	0.550%	0.170%	0.300%	0.250%
43	0.520%	0.650%	0.550%	0.170%	0.300%	0.250%
44	0.520%	0.650%	0.550%	0.170%	0.300%	0.250%
45	0.520%	0.650%	0.550%	0.170%	0.300%	0.250%
46	0.650%	0.750%	0.750%	0.300%	0.420%	0.420%
47	0.650%	0.750%	0.750%	0.300%	0.420%	0.420%
48	0.650%	0.750%	0.750%	0.300%	0.420%	0.420%
49	0.650%	0.750%	0.750%	0.300%	0.420%	0.420%
50	0.650%	0.750%	0.750%	0.300%	0.420%	0.420%
51	0.800%	0.800%	0.800%	0.700%	0.750%	0.750%
52	0.800%	0.800%	0.800%	0.700%	0.750%	0.750%
53	0.800%	0.800%	0.800%	0.700%	0.750%	0.750%
54	0.800%	0.800%	0.800%	0.700%	0.750%	0.750%
55	0.800%	0.800%	0.800%	0.700%	0.750%	0.750%
56+	1.000%	0.850%	0.900%	1.100%	0.800%	1.000%

PLAN PROVISIONS

The following is a summary of the benefit provisions provided in Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes.

Membership	Full-time employees of an eligible group, prior to attaining age 65, who are engaged to work for more than six months in a calendar year. Tier 3 Defined Contribution members are able to elect participation in post-retirement health insurance subsidy.
Benefit Tiers	Benefits differ for members based on their hire date: **Tier 1:** Hired before January 1, 2012 **Tier 2:** Hired on or after January 1, 2012 but before July 1, 2017 **Tier 3:** Hired on or after July 1, 2017
Compensation	Compensation is the amount including base salary, overtime pay, shift and military differential pay, compensatory time used in lieu of overtime pay, and holiday pay, paid to an employee on a regular payroll basis and longevity pay paid at least every six months for which contributions are made to the System. For Tier 3 members, compensation is limited by statutory cap ($110,000 with adjustments by the Board).
Average Monthly Benefit Compensation	**Tier 1:** The highest compensation paid to member during three consecutive years out of the last 20 years of Credited Service, divided by months. **Tier 2:** The highest compensation paid to member during five consecutive years out of the last 20 years of Credited Service, divided by months. **Tier 3:** The highest compensation paid to member during five consecutive years out of the last 15 years of Credited Service, divided by months.
Credited Service	Total periods of service, both before and after the member's date of participation, for which the member made contributions to the fund.

Normal Retirement

Date

Tier 1: First day of month following attainment of 1) 20 years of service or 2) 62nd birthday and completion of 15 years of service.

Tier 2: First day of month following the attainment of age 52.5 and completion of 15 years of service.

Tier 3: First day of month following the attainment of age 55 and completion of 15 years of service.

Benefit

Tier 1: 50% of Average Monthly Benefit Compensation, adjusted based on Credited Service as follows (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Adjustment
15 years, but less than 20	Reduced 4% per year less than 20
20 years, but less than 25	Plus 2% per year between 20 and 25
25+ years	Plus 2.5% per year above 20

Tier 2: Benefit multiplier (below) times Average Monthly Benefit Compensation times Credited Service (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Multiplier
15 years, but less than 17	1.50%
17 years, but less than 19	1.75%
19 years, but less than 22	2.00%
22 years, but less than 25	2.25%
25+ years	2.50%

Tier 3: Benefit multiplier (below) times Average Monthly Benefit Compensation times Credited Service (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Multiplier
15 years, but less than 17	1.50%
17 years, but less than 19	1.75%
19 years, but less than 22	2.00%
22 years, but less than 25	2.25%
25+ years	2.50%

Form of Benefit	For married retirees, an annuity payable for the life of the member with 80% continuing to the eligible spouse upon death. For unmarried retirees, the normal form is a single life annuity.

Early Retirement	***Only applicable to Tier 3 members***
Date	Attainment of age 52.5 and 15 years of Credited Service.
Benefit	Actuarial equivalent of Normal Retirement benefit.
Form of Benefit	Same as Normal Retirement

Disability Benefit – Accidental (duty-related)

Eligibility	Total and permanent disability incurred in performance of duty.
Benefit Amount	A maximum of: a.) 50% of Average Monthly Benefit Compensation, and; b.) The monthly retirement pension that the Member is entitled to receive if he or she retired immediately.

Disability Benefit – Ordinary (not duty-related)

Eligibility	Total and permanent disability not incurred in performance of duty.
Benefit Amount	Normal Retirement pension that the member is entitled to receive, prorated based on Credited Service earned over the required Credited Service for Normal Retirement (maximum ratio of 1).

Disability Benefit – Other

Temporary	Benefit equals 1/12 of 50% of compensation during year preceding date of disability. Payments terminate after 12 months.
Catastrophic	Benefit equals 90% of Average Monthly Benefit Compensation. After 60 months member receives greater of 62.5% Average Monthly Benefit Compensation and accrued normal pension.

Pre-Retirement Death Benefit	***Payable following death of active member***
Service Incurred	100% of Average Monthly Benefit Compensation, reduced by child's pension.

Non-Service Incurred	80% of benefit based on calculation for accidental disability retirement.
Child's Pension	10% of pension for each child (maximum 20% paid) based on calculation for accidental disability retirement. Payable to dependent child under age 18 (23 if full-time student).
Guardian's Pension	Same as spouse's pension. Payable (along with child's pension) when no spouse is being paid and there is at least one child under 18 (23, if full-time student).
Accumulated Contributions	Any contributions remaining upon the death of the last beneficiary shall be paid as a lump sum.

Vesting (Termination)

Vesting Service Requirement

Tier 1: 10 years.

Tiers 2 & 3: 15 years.

Non-Vested Benefit

Tier 1: Lump sum payment of accumulated contributions, plus additional amount based on years of Credited Service.

Service	Additional % of Contributions
Less than 5 years	0%
5 years	25%
6 years	40%
7 years	55%
8 years	70%
9 years	85%
10+ years	100%

Tiers 2 & 3: Lump sum payment of accumulated contributions, with interest at rate determined by the Board.

Vested Benefit

Tier 1: Deferred retirement annuity based on two times member's accumulated contributions, deferred to age 62. Member is not entitled to survivor benefits, benefit increases, or group health insurance subsidy.

Tiers 2 & 3: Calculated same as normal retirement pension. Payable if contributions left in fund until reach age requirement. Member is entitled to survivor benefits, benefit increases, and group health insurance subsidy.

Cost-of-Living Adjustment

Payable to retired member or survivor of retired member

Tiers 1 & 2: Compound cost-of-living adjustment on base benefit. First payment is made on July 1, 2018, with annual adjustments effective every July 1 thereafter. Adjustment does not apply while in DROP.

Cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. Maximum increase of 2%.

Tier 3: Compound cost-of-living adjustment on base benefit beginning earlier of first calendar year after the 7th anniversary of retirement or when the retired member reaches 60 years of age.

A cost-of-living adjustment shall be paid on July 1 each year that the funded ratio for members hired on or after July 1, 2017 is 70% or more.

The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. The cost-of-living adjustment will not exceed:

- 2%, if funded ratio for members who are hired on or after July 1, 2017 is 90% or more;
- 1.5%, if funded ratio for members who are hired on or after July 1, 2017 is 80-90%;
- 1%, if funded ratio for members who are hired on or after July 1, 2017 is 70-80%.

Deferred Retirement Option Plan (DROP)

Eligibility: Tier 1 and 20 years of Credited Service.

DROP Period: Maximum 84 months.

Member Contributions: Cease upon DROP entry.

Benefit Amount: Calculated based on Credited Service and average monthly compensation as of the beginning of the DROP period, credited to DROP participation account for DROP period.

Interest on DROP Participation Account

Beginning Year	Interest Rate
July 1, 2016	7.40%
July 1, 2018	7.30%
July 1, 2022	7.20%

Payment of DROP Participation Account	Payable as lump sum distribution to Public Safety Personnel Defined Contribution Retirement Plan at earlier of 1) end of DROP period, 2) at termination, or 3) five years.
Payment Monthly Benefit	System commences payment of benefit amount at the earlier of 1) the end of the DROP period and 2) at termination

Post-Retirement Health Insurance Subsidy

Eligibility	Retired member or survivor who elect health coverage provided by the state or participating employer.

Maximum Subsidy Amounts (monthly)

	Member Only	With Dependents
Medicare Eligible	$100	$170
One w/ Medicare	N/A	$215
Not Medicare Eligible	$150	$260

Contributions

Employee	**Tiers 1 & 2:** 7.65% (effective July 1, 2023). **Tier 3:** 50% of total contribution, which is Normal Cost plus a level-dollar amortization of unfunded actuarial accrued liability over a closed period not to exceed 10 years.
Employer	**Tiers 1 & 2:** Normal Cost plus amortization of unfunded actuarial accrued liability over a closed period not to exceed 20 years (subject to one-time election to extend to closed period not to exceed 30 years). **Tier 3:** 50% of total contribution, which is Normal Cost plus a level-dollar amortization of unfunded actuarial accrued liability over a closed period not to exceed 10 years.

CHANGES SINCE THE PRIOR VALUATION

None.

ACTUARIAL FUNDING POLICY

A pension plan funding policy describes how pension funding will improve for underfunded plans or maintain funded benefits for funded plans over time for those benefits defined in Arizona Revised Statutes (ARS). Those benefits defined in ARS are to be equitably managed and administered by the Arizona Public Safety Personnel Retirement System (PSPRS agency).

This Actuarial Funding Policy identifies the funding objectives and elements of the actuarial funding policy set by the Board for the PSPRS agency. The Board adopted this Funding Policy to help ensure the systematic funding of future benefit payments for members of the retirement systems as established by the legislature.

This policy covers all retirements systems administered by the Board: The Public Safety Personnel Retirement System (PSPRS); the Correction Officers Retirement Plan (CORP); and the Elected Officials Retirement Plan (EORP).

To achieve the systematic funding of future benefits, metrics are identified to measure the progress, or the lack of progress, over time to identify trends. These trends inform the continuation of the current policies or identify areas of needed research for consideration.

This funding policy is reviewed annually and adopted by the Board in accordance with ARS 38-863.02. This policy was reviewed and adopted by the Board in September 2025.

PSPRS STATEMENT OF PURPOSE

The Purpose of the Public Safety Personnel Retirement System is to provide uniform, consistent, and equitable statewide retirement programs for those who have been entrusted to our care.

FUNDING OBJECTIVES

1. Maintain adequate assets so that current plan assets, plus future contributions and investment earnings, are sufficient to fund all benefits expected to be paid to members and their beneficiaries.
    a. Corollary 1a: Current and future contributions should be calculated based upon assumptions that reflect the Board's best estimate of future experience and methods that appropriately allocate costs to address generational equity.
    b. Corollary 1b: While the shorter-term objective is to fully fund the Actuarial Accrued Liability (AAL) that estimates benefits earned as of the valuation date, contributions should target the long-term Present Value of Benefits (PVB) to fund all benefits and help offset risks.
    c. As closed plans mature, the target funding should be 110% of AAL or 100% of PVB, whichever is greater.

2. Maintain public policy goals of accountability and transparency through stakeholder communication and education. Each policy element is clear in intent and effect, and each should be considered in a balanced approach to determine how and when the funding requirements of the plan will be met.
    a. Corollary 2a: Board shall provide stakeholders with separate reports and tools to help explain current results as well as to help model future funding requirements.

3. Promote intergenerational equity. Defined benefit pensions are designed with a long-term perspective and designed to minimize contribution volatility that cannot avoid some level of generational cost shift. However, the goal is that each generation of members and employers (taxpayers) should, to the extent possible, incur the cost of benefits for the employees who provide services to them, rather than shifting those costs to other generations of members and employers (taxpayers).
    a. Corollary 3a: A systematic reduction of the Unfunded Actuarial Accrued Liability (UAAL) over a reasonable time period is paramount to achieving this objective.

Consideration can be given to reduce volatility, to the extent possible, of employer and employee contribution rates as long as the integrity of the objectives listed above is not compromised.

ELEMENTS OF ACTUARIAL FUNDING POLICY

1. Actuarial Cost Method
    a. The Entry Age Normal level percent of pay actuarial cost method of valuation shall be used in determining the AAL and Normal Cost. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") shall become part of the AAL. The Normal Cost shall be determined on an individual basis for each active member.

2. Asset Smoothing Method
    a. The investment gains or losses of each valuation period, resulting from the difference between the actual investment return and assumed investment return, shall be recognized annually in level amounts over five years (Tier 3) or seven years (Tiers 1 and 2) in calculating the Actuarial Value of Assets (AVA).
    b. The AVA so determined shall be subject to a 20% corridor relative to the Market Value of Assets (MVA).

3. Amortization Method (Unfunded Amounts)
    a. The AVA is subtracted from the computed AAL. Any unfunded amount is amortized as a level percent of payroll over a closed period.
    b. The unfunded liabilities, for EORP and Tiers 1 & 2 for both PSPRS and CORP, determined in the 6/30/2019 actuarial valuation will become the initial layer for each employer beginning with the 6/30/2020 actuarial valuation and amortized using the current closed year period for that employer and continue to decrease each year.
        i. The payroll growth rate assumption used to amortize the PSPRS Unfunded Liability will be decreased by 0.75% each year with the intention of ultimately achieving 0.0%.

ii. The payroll growth rate used to amortize the Correction Officers Retirement Plan (CORP) Unfunded Liability will be reduced by 0.5% until 0.0% is reached.

iii. The payroll growth rate used to amortize the Elected Officials Retirement Plan (EORP) Unfunded Liability will be 0.0%.

c. Gains and losses, for EORP and Tiers 1 & 2 for both PSPRS and CORP, for each employer beginning with the 6/30/2020 actuarial valuation will be amortized as a new layer over the same amortization period as the regular unfunded liability to a minimum of 15 years. Once the amortization period for each employer decreases to 15 years, each subsequent year's gains and losses will be amortized as a new 15-year closed layer.

   i. The payroll growth rate used to amortize the unfunded liability for all Plans under this paragraph will be 0.0% (i.e. level-dollar amortization).

d. Tier 3 amortization methods are established in ARS 38-843.G and ARS 38-891.K.

4. Amortization Method (Overfunded Amounts)

   a. The AVA is subtracted from the target funding level (greater of 110% of AAL or 100% of PVB). Any overfunded amount is amortized as a level dollar amount over an open 10-year period.

5. Tier 3 Rate Calculation

   a. Tier 3 is distinct from Tiers 1 & 2 in PSPRS and CORP as the contributions are a shared percentage (50/50 split for PSPRS: for CORP, employer 1/3 and member 2/3 of the normal cost plus 50 percent each, member and employer, of the UAAL amortization) for employers and members based on the actuarially calculated rate. To reduce the impact of volatility to rates, the Tier 3 rates will be smoothed over a 3-year rolling period based on the actuarially calculated rates for each year's actuarial valuation.

      i. Beginning with the 6/30/2023 valuation, the prospective Tier 3 rates set by the Board of Trustees are planned to be a rolling average of the actuarial calculated Tier 3 rates using the 6/30/2023, 6/30/2022 and 6/30/2021 rates in the initial process.

      ii. As assumptions may be updated year-to-year, the prior calculated rates are not updated for those changes, the prior calculated rates are used to smooth in the new rates.

   b. At the May 2023 Board Meeting, the Board changed the assumed rate of return for CORP Tier 3, which was at 7.2%, to match the 7.0% assumed rate of return for PSPRS Tier 3. The Board committed to continue to monitor market conditions and directions with the intent to ultimately adopt a single assumed rate of return for all investments for retirement systems/plans administered by PSPRS agency.

6. Assumed Rate of Return (ARR)
    a. At the May 2023 Board Meeting, the Board changed the assumed rate of return for CORP Tier 3, which was at 7.2%, to match the 7.0% assumed rate of return for PSPRS Tier 3. The Board will continue to monitor market conditions and directions with the intent to ultimately adopt a single assumed rate of return for all investments for retirement systems/plans administered by PSPRS agency.

7. EORP Floor Considerations
    a. Establish a "floor" for EORP based on the immediately previous valuation by adjusting payroll growth, amortization periods of the original layer or other possible options, to improve funding in maintaining contribution levels opposed to reducing employer contributions.

METRICS TO MONITOR FUNDING OBJECTIVES

1. Appropriateness of Assumptions – Gain/Loss Experience (Corollary 1a)
    a. Metric: Do the cumulative gain/loss layers over the prior five years exceed 8% of plan assets?
    b. Measurement: History of annual gain/loss (split by asset and liability experience) and five-year cumulative results will be tracked.
    c. Action Plan: This metric assumes that a full experience study is performed at least every five years so objective of measurement is to monitor interim experience. If the metric answer is yes, a review of the sources or causes of gains and losses should be analyzed and presented to the Advisory Committee to provide a recommendation to the Board of Trustees. The analysis and presentation are intended to provide a basis for consideration if assumption changes are warranted between full experience studies.

2. Funding Targets (Corollary 1b)
    a. Metric: Has the funded status, on both an AAL and PVB basis when compared to the MVA, increased over a five-year period?
    b. Measurement: History of funded status measures will be tracked.
    c. Action Plan: If the answer is no and not readily explainable (e.g., significant assumption change), a review of the reason(s) for the decrease should be researched and presented to the Advisory Committee to provide a recommendation to the Board of Trustees. The analysis and presentation are intended to provide a basis for consideration if changes to assumptions and/or methods are warranted between full experience studies.

3. Communication with Stakeholders (Corollary 2a)
    a. Metric: Have reports and budgeting tools been provided to stakeholders in a timely fashion?
    b. Measurement: Yes/No answer based on input from PSPRS administrator. (An annual standard survey of stakeholders – 3 to 5 questions.)
    c. Action Plan: If the answer is no, and periodically regardless (e.g., every three years), PSPRS staff will revisit this metric to report to the Advisory Committee to provide a recommendation to the Board of Trustees if current reports / tools are sufficient and if the delivery timing is appropriate.

4. Timely Recognition of Costs (Corollary 3a)
    a. Metric: Has the percentage of unfunded liability subject to negative amortization decreased over a five-year lookback period?
    b. Measurement: History of unfunded liability subject to negative amortization as a percentage of total unfunded liability will be tracked.
    c. Action Plan: If the answer is no, and not readily explainable (e.g., adopted assumption changes being phased in are anticipated to address negative amortization), a review of the reason(s) for negative amortization should be researched and presented to the Advisory Committee to provide a recommendation to the Board of Trustees. The analysis and presentation are intended to provide a basis for consideration if changes to assumptions and/or methods are warranted between full experience studies.

SUPPLEMENTARY INFORMATION

GLOSSARY

Accrued Benefit	The benefit earned as of a specific date based on the provisions of the plan and the member's age, service, and salary as of that date.
Actuarial Accrued Liability	The portion of the anticipated future benefits allocated to years prior to the valuation date determined according to the plan's Actuarial Cost Method.
Actuarial Value of Assets	The asset value used in the valuation to determine contribution requirements. It represents the plan's Market Value of Assets (see below), with adjustments according to the plan's Actuarial Asset Method. These adjustments produce a "smoothed" value that is likely to be less volatile from year to year than the Market Value of Assets.
Actuarial Assumptions	Assumptions regarding the occurrence of future events affecting plan costs. These assumptions include rates of investment earnings, changes in compensation, rates of mortality, withdrawal, disablement, and retirement as well as statistics related to marriage and family composition.
Actuarial Cost Method	A method of determining the portion of the cost of a plan to be allocated to each year; sometimes referred to as the "actuarial funding method." Each cost method allocates a certain portion of the actuarial present value of benefits between the Actuarial Accrued Liability and future normal costs to ensure the plan is adequately and systematically funded.
Actuarial Gain or Loss	The change in Unfunded Actuarial Accrued Liability resulting from experience different from Actuarial Assumptions. Gains decrease the Unfunded Actuarial Accrued Liability and losses increase the Unfunded Actuarial Accrued Liability.

Actuarial Present Value	The estimated amount of funds required as of a specified date to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payments between the specified date and the expected date of payment.
Amortization Payment	The portion of the plan contribution designated to pay interest and reduce the outstanding principal balance of Unfunded Actuarial Accrued Liability. If the amortization payment is less than the accrued interest on the Unfunded Actuarial Accrued Liability the outstanding principal balance will increase.
Decrements	Events which result in the termination of membership in the system such as retirement, disability, withdrawal, or death.
Entry Age Normal Cost Method	Under this method, the normal cost is the sum of the individual normal costs for all active participants. For an active participant, the normal cost is the participant's normal cost accrual rate, multiplied by the participant's current compensation. The normal cost accrual rate equals: (i) the present value of future benefits for the participant, determined as of the participant's entry age, divided by (ii) the present value of the compensation expected to be paid to the participant for each year of the participant's anticipated future service, determined as of the participant's entry age. In calculating the present value of future compensation, the salary scale is applied both retrospectively and prospectively to estimate compensation in years prior to and subsequent to the valuation year based on the compensation used for the valuation. The accrued liability is the sum of the individual accrued liabilities for all participants and beneficiaries. A participant's accrued liability equals the present value, at the participant's attained age, of future benefits less the present value at the participant's attained age of the individual normal costs payable in the future. A beneficiary's accrued liability equals the present value, at the beneficiary's

	attained age, of future benefits. The unfunded accrued liability equals the total accrued liability less the actuarial value of assets. Under this method, the entry age used for each active participant is the participant's age at the time he or she would have commenced participation if the plan had always been in existence under current terms, or the age as of which he or she first earns service credits for purposes of benefit accrual under the current terms of the plan.
Funded Ratio	A measure of the ratio of the plan assets to liabilities of the system. Typically, the assets used in the measure are the Actuarial Value of Assets as determined by the asset valuation method. The Funded Ratio depends not only on the financial strength of the plan but also on the asset valuation method used to determine the assets and on the Actuarial Cost Method used to determine the liabilities.
Interest Rate	The assumed long-term rate of return on plan assets.
Market Value of Assets	The fair market value of plan assets as of the valuation date.
Normal Cost	The current year's cost for benefits yet to be funded. Under the Entry Age Normal cost method, it is determined for each participant as the present value of future benefits, determined as of the Member's entry age, amortized as a level percentage of compensation over the anticipated number of years of participation, determined as of the entry age.
Present Value of Benefits	The single sum value on the valuation date of all future benefits to be paid to current plan participants.
Projected Annual Payroll	The projected annual rate of pay for the fiscal year following the fiscal year beginning on the valuation date of all covered Members.
Projected Benefits	The benefits expected to be paid in the future based on the provisions of the plan and the Actuarial Assumptions. The projected values are based on anticipated future advancement in age and accrual of service as well as increases in salary paid to the participant.

Total Annual Payroll	The projected annual rate of pay for the fiscal year beginning on the valuation date of all covered Members.
Ultimate Cost	The total cost to the plan once the last benefit has been paid. The Ultimate Cost equals Benefit Payments Plus: Expenses Less: Investment Income The Ultimate Cost is independent of the Actuarial Cost Method selected.
Unfunded Actuarial Accrued Liability	The difference between the Actuarial Accrued Liability and the Actuarial Value of Assets. Under the Entry Age Normal Actuarial Cost Method, an actuarial gain or loss, based on actual versus expected UAAL, is determined in conjunction with each valuation of the plan.

DISCUSSION OF RISK

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition.

Throughout this report, actuarial results are determined using various actuarial assumptions. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. It is possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position.

Below are examples of ways in which plan experience can deviate from assumptions and the potential impact of that deviation. Typically, this results in an actuarial gain or loss representing the current-year financial impact on the plan's unfunded liability of the experience differing from assumptions; this gain or loss is amortized over a period of time determined by the plan's amortization method. When assumptions are selected that adequately reflect plan experience, gains and losses typically offset one another in the long term, resulting in a relatively low impact on the plan's contribution requirements associated with plan experience. When assumptions are too optimistic, losses can accumulate over time and the plan's amortization payment could potentially grow to an unmanageable level.

- Investment Return: When the rate of return on the Actuarial Value of Assets falls short of the assumption, this produces a loss representing assumed investment earnings that were not realized. Further, it is unlikely that the plan will experience a scenario that matches the assumed return in each year as capital markets can be volatile from year to year. Therefore, contribution amounts can vary in the future.
- Salary Increases: When a plan participant experiences a salary increase that was greater than assumed, this produces a loss representing the cost of an increase in anticipated plan benefits for the participant as compared to the previous year. The total gain or loss associated with salary increases for the plan is the sum of salary gains and losses for all active participants.
- Payroll Growth: The plan's payroll growth assumption, if one is used, causes a predictable annual increase in the plan's amortization payment in order to produce an amortization payment that remains constant as a percentage of payroll if all assumptions are realized. If payroll increases less than the plan's payroll growth assumption, the plan's amortization payment can increase significantly as a percentage of payroll even if all assumptions other than the payroll growth assumption are realized.
- Demographic Assumptions: Actuarial results take into account various potential events that could happen to a plan participant, such as retirement, termination, disability, and death. Each of these potential events is assigned a liability based on the likelihood of the event and the financial consequence of the event for the plan. Accordingly, actuarial liabilities reflect a blend of financial

consequences associated with various possible outcomes (such as retirement at one of various possible ages). Once the outcome is known (e.g. the participant retires) the liability is adjusted to reflect the known outcome. This adjustment produces a gain or loss depending on whether the outcome was more or less favorable than other outcomes that could have occurred.

- Contribution risk: This risk results from the potential that actual employer contributions may deviate from actuarially determined contributions, which are determined in accordance with the Board's funding policy. The funding policy is intended to result in contribution requirements that if paid when due, will result in a reasonable expectation that assets will accumulate to be sufficient to pay plan benefits when due. Contribution deficits, particularly large deficits and those that occur repeatedly, increase future contribution requirements and put the plan at risk for not being able to pay plan benefits when due.

IMPACT OF PLAN MATURITY ON RISK

For newer pension plans, most of the participants and associated liabilities are related to active members who have not yet reached retirement age. As pension plans continue in operation and active members reach retirement ages, liabilities begin to shift from being primarily related to active members to being shared amongst active and retired members. Plan maturity is a measure of the extent to which this shift has occurred. It is important to understand that plan maturity can have an impact on risk tolerance and the overall risk characteristics of the plan. For example, closed plans with a large amount of retired liability do not have as long of a time horizon to recover from losses (such as losses on investments due to lower than expected investment returns) as plans where the majority of the liability is attributable to active members. For this reason, less tolerance for investment risk may be warranted for highly mature closed plans with a substantial inactive liability. Similarly, mature closed plans paying substantial retirement benefits resulting in a small positive or net negative cash flow can be more sensitive to near term investment volatility, particularly if the size of the fund is shrinking, which can result in less assets being available for investment in the market.

To assist with determining the maturity of the plan, we have provided some relevant metrics in the table following titled "Plan Maturity Measures and Other Risk Metrics". For a better understanding of the overall Plan and the impact of these risks, please refer to the consolidated PSPRS valuation report.

LOW DEFAULT RISK OBLIGATION MEASURE

ASOP No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, was revised as of December 2021 to include a "low-default-risk obligation measure" (LDROM). This liability measure is consistent with the determination of the actuarial accrued liability shown on page 8 in terms of member data, plan provisions, and assumptions/methods, including the use of the Entry Age Normal Cost Method, except that the interest rate is tied to low-default-risk fixed income securities. The S&P Municipal Bond 20 Year High Grade Rate Index (daily rate closest to, but not later than, the measurement date) was selected to represent a current market rate of low risk but longer-term investments that could be included in a low-risk asset portfolio. The interest rate used in this valuation was 4.81%, resulting in an LDROM of $19,684,501 for Tiers 1 and 2 and $496,952,639 for Tier 3. The LDROM should not be considered the "correct" liability measurement;

it simply shows a possible outcome if the Board elected to hold a very low risk asset portfolio. The Board actually invests the pension plan's contributions in a diversified portfolio of stocks and bonds and other investments with the objective of maximizing investment returns at a reasonable level of risk. Consequently, the difference between the plan's Actuarial Accrued Liability disclosed earlier in this section and the LDROM can be thought of as representing the expected taxpayer savings from investing in the plan's diversified portfolio compared to investing only in high quality bonds.

The actuarial valuation reports the funded status and develops contributions based on the expected return of the plan's investment portfolio. If instead, the plan switched to investing exclusively in high quality bonds, the LDROM illustrates that reported funded status would be lower (which also implies that the Actuarially Determined Contributions would be higher), perhaps significantly. Unnecessarily high contribution requirements in the near term may not be affordable and could imperil plan sustainability and benefit security.

Plan Maturity Measures and Other Risk Metrics – Tiers 1 & 2

	6/30/2025	6/30/2024	6/30/2023	6/30/2022	6/30/2021
Support Ratio					
Total Actives	12	13	13	14	16
Total Inactives	20	21	21	18	18
Actives / Inactives	60.0%	61.9%	61.9%	77.8%	88.9%
Asset Volatility Ratio					
Market Value of Assets (MVA)	13,373,834	11,735,331	9,655,862	8,549,363	8,429,048
Total Annual Payroll	1,177,330	1,151,829	1,052,753	986,072	1,041,206
MVA / Total Annual Payroll	1,135.9%	1,018.8%	917.2%	867.0%	809.5%
Accrued Liability (AL) Ratio					
Inactive Accrued Liability	9,855,168	9,985,219	9,686,610	8,247,790	7,566,289
Total Accrued Liability	14,355,217	13,825,978	12,932,714	11,214,803	10,866,908
Inactive AL / Total AL	68.7%	72.2%	74.9%	73.5%	69.6%
Funded Ratio					
Actuarial Value of Assets (AVA)	12,864,098	11,614,444	9,833,852	8,782,108	7,705,982
Total Accrued Liability	14,355,217	13,825,978	12,932,714	11,214,803	10,866,908
AVA / Total Accrued Liability	89.6%	84.0%	76.0%	78.3%	70.9%
Net Cash flow Ratio					
Net Cash Flow [1]	367,424	1,022,573	454,490	460,156	482,263
Market Value of Assets (MVA)	13,373,834	11,735,331	9,655,862	8,549,363	8,429,048
Net Cash Flow / MVA	2.7%	8.7%	4.7%	5.4%	5.7%

[1] Determined as total contributions minus benefit payments. Administrative expenses are typically included but are considered part of the net interest rate assumption for this plan.

PLAN MATURITY MEASURES AND OTHER RISK METRICS - TIER 3 [2]

	6/30/2025	6/30/2024	6/30/2023	6/30/2022	6/30/2021
SUPPORT RATIO					
Total Actives	4,241	3,661	3,052	2,417	2,560
Total Inactives	728	570	450	327	307
Actives / Inactives	582.6%	642.3%	678.2%	739.1%	833.9%
ASSET VOLATILITY RATIO					
Market Value of Assets (MVA)	266,158,721	184,210,874	119,338,352	74,774,123	51,992,240
Total Annual Payroll	367,097,197	295,480,312	226,680,964	165,151,543	115,883,115
MVA / Total Annual Payroll	72.5%	62.3%	52.6%	45.3%	44.9%
ACCRUED LIABILITY (AL) RATIO					
Inactive Accrued Liability	21,448,721	16,792,236	9,349,377	4,598,114	2,290,610
Total Accrued Liability	247,440,343	165,671,690	110,961,191	68,939,204	42,733,537
Inactive AL / Total AL	8.7%	10.1%	8.4%	6.7%	5.4%
FUNDED RATIO					
Actuarial Value of Assets (AVA)	253,309,023	178,758,433	119,101,476	76,171,857	45,863,401
Total Accrued Liability	247,440,343	165,671,690	110,961,191	68,939,204	42,733,537
AVA / Total Accrued Liability	102.4%	107.9%	107.3%	110.5%	107.3%
NET CASH FLOW RATIO					
Net Cash Flow [1]	55,470,509	47,922,185	36,208,171	25,802,686	18,607,209
Market Value of Assets (MVA)	266,158,721	184,210,874	119,338,352	74,774,123	51,992,240
Net Cash Flow / MVA	20.8%	26.0%	30.3%	34.5%	35.8%

[1] Determined as total contributions minus benefit payments. Administrative expenses are typically included but are considered part of the net interest rate assumption for this plan.
[2] Tier 3 results are shown for the Risk Sharing group, where applicable.