



REQUEST FOR FUNDING [DRAFT]

Approximately

\$____,000

**Town of Paradise Valley, Arizona
Excise Tax Revenue Obligations, Series 2016**

DUE: FEBRUARY 1, 2016

10:00 A.M. (M.S.T.)



INTRODUCTION

The Town of Paradise Valley, Arizona (the “Town”) intends to authorize the execution and delivery of its Excise Tax Revenue Obligations, Series 2016 (the “2016 Obligations”) in order to pay for the costs of certain capital facilities of the Town, and to pay for the costs of execution and delivery of the 2016 Obligations. The Town is seeking bids from Qualified Investors for the direct purchase of all the 2016 Obligations.

This Request for Funding (the “RFF”) is accompanied by a separate attachment containing the major legal documents associated with this transaction (the “Legal Documents”) and includes the following: the Authorizing Resolution (the “Resolution”) and the Forms of the Obligation Purchase Contract (the “Purchase Contract”), the Certificate of Qualified Investor, the Trust Agreement, the Agreement and the Legal Opinion.

This RFF does not commit the Town to pay any costs incurred by any proposer in the submission of a proposal or in making necessary studies or designs for the preparation thereof, or for procuring or contracting for the services to be furnished under the RFF.

KEY DATES AND CONTACTS

RFF Due Date: Proposals are due no later than **February 1, 2016 at 10:00 a.m. Mountain Standard Time.**

Final Credit Approval and Rate Lock: No later than **February 3, 2016.**

Closing: Closing is scheduled for **February 17, 2016.**

RFF Questions/Clarification: Clarifications on the RFF and questions regarding the preparation of the proposal should be directed to **Jim Stricklin**, Wedbush Securities Inc. at jim.stricklin@wedbush.com or **(602) 952-6852 no later than January 26, 2016.** A response in the form of an addendum to the RFF will be provided to all parties if a substantive clarification is in order.

Due diligence/credit related questions for the Town should be directed to **Dawn Marie Buckland**, Director of Administration and Government Affairs at dbuckland@paradisivalleyaz.gov or **(480) 348-3555.**

Questions regarding the legal structure of the transaction should be directed to **Scott Ruby** or **Zach Sakas**, Gust Rosenfeld P.L.C. at swruby@gustlaw.com or **(602) 257-7432**, or at zsakas@gustlaw.com or **(602) 257-7439.**

SUBMITTAL

Proposals for purchasing the 2016 Obligations must be submitted electronically on or before 10:00 a.m. Mountain Standard Time on February 1, 2016. Electronic proposals must be submitted along with **Appendix B – Bid Form** to Dawn Marie Buckland at dbuckland@paradisivalleyaz.gov and Jim Stricklin at jim.stricklin@wedbush.com.

AWARD

Town officials may select the winning bidder (the “Purchaser”) on a preliminary basis to negotiate final terms, conditions and revisions to the Legal Documents. The Town reserves the right to reject any or all proposals, issue future requests for bids, and reserves the right to issue the 2016 Obligations in a public offering.



THE 2016 OBLIGATIONS

THE 2016 OBLIGATIONS WILL BE SPECIAL REVENUE OBLIGATIONS OF THE TOWN AND WILL BE PAYABLE SOLELY FROM PAYMENTS TO BE MADE BY THE TOWN PURSUANT TO THE AGREEMENT. THE PAYMENTS TO BE MADE BY THE TOWN WILL BE SECURED BY A PLEDGE OF AND A LIEN ON THE TOWN’S EXCISE TAXES. THE 2016 OBLIGATIONS WILL NOT BE GENERAL OBLIGATIONS OF THE TOWN, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF AND THE FULL FAITH AND CREDIT OF THE TOWN, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WILL NOT BE PLEDGED FOR THE PAYMENT OF THE 2016 OBLIGATIONS.

The 2016 Obligations are payable solely from payments (the “Payments”) to be made by the Town of Paradise Valley, Arizona, (the “Town”) pursuant to an Agreement, dated as of February 1, 2016 (the “Agreement”), between the Town and U.S. Bank National Association (the “Trustee”). The Obligations are being executed and delivered for the purpose of providing funds (i) to pay costs associated with the acquisition, construction, installation and equipping of certain capital facilities, street, sidewalk and stormwater improvements, and other projects of the Town (collectively, the “Project”) and (ii) to pay the costs and expenses relating to the execution and delivery of the 2016 Obligations. The 2016 Obligations will be executed and delivered pursuant to a Trust Agreement, dated as of February 1, 2016 (the “Trust Agreement”), between the Town and the Trustee. All of the Trustee’s interest under the Agreement, including, without limitation, the right to receive and collect the Payments and the amounts payable under the Trust Agreement and the right to enforce the payment of Payments will be held by the Trustee for the benefit of the Purchaser of the 2016 Obligations.

The Payments are secured by a pledge of the Town’s Excise Taxes on a parity with the Town’s pledge of Excise Taxes for the payments pertaining to the Existing Parity Obligations (as defined herein) and any Additional Parity Obligations executed and delivered on a parity (together, the “Parity Obligations”). Currently, the Town has Parity Obligations outstanding in the aggregate principal amount of \$3,160,000 comprised of the Town’s payment obligations related to the Town of Paradise Valley Municipal Property Corporation Excise Tax Revenue Refunding Obligations, Series 2009 (the “Existing Parity Obligations”).

Pursuant to the Agreement, the Town will pay the Trustee the Payments for the acquisition of the Project, which will be equal to the principal and interest payable with respect to the 2016 Obligations. The Payments to be made by the Town under the Agreement are payable from and secured by a lien on and pledge of the Town’s Excise Taxes. The pledge of Excise Taxes under the Agreement is on a parity with the Town’s pledge of Excise Taxes for the payments pertaining to the Parity Obligations. See Appendix A for information regarding the Town’s Excise Taxes.

Payment of the 2016 Obligations is not secured by the Project, and the Purchaser of the 2016 Obligations has no claim or lien on the Project or any part thereof.

PROPOSALS

Maturity Schedule

The repayment schedule shown below must be used as the basis for any proposal and is based upon the following:

1. **Original Principal Amount:** \$____,000*;
2. **Maturity:** 8 years, January 1, 2017 through January 1, 2024;
3. **Average Life:** Approximately ____ years;
4. **Dated Date:** The Date of Delivery, estimated to be February 17, 2016;
5. **Structure:** _____;
6. **Interest Payment Dates:** Interest will be payable on July 1, 2016 and on each January 1 and July 1 thereafter until maturity;

* Subject to change.



7. **Interest Rate:** Not to exceed 2.50% for tax-exempt interest rate.
8. **Bank Qualification:** Representatives of the Town will represent and warrant that they do not anticipate that the aggregate amount of tax-exempt obligations that will be issued by or on behalf of the Town in calendar year 2016 will exceed \$10,000,000; and
9. **Tax Status:** Special Counsel Gust Rosenfeld P.L.C. will, at closing, provide an opinion as to the tax-exempt status of the portion of each Payment made by the Town under the Agreement and denominated as and comprising interest income pursuant to the Agreement and received by the Purchaser of the 2016 Obligations, and as to the validity of the 2016 Obligations under State law.

Maturity Schedule*

<u>Year</u> <u>(January 1)</u>	<u>The 2016</u> <u>Obligations</u>
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	

Proposal Content

Your proposal must acknowledge and/or address each of the following items:

1. **Legal Structure:** Forms of pertinent Legal Documents associated with this transaction accompany this RFF. Any changes required by a prospective bidder to any of the Legal Documents must be noted clearly in a prospective bidder's proposal and not be subject to further approval by the prospective bidder's credit committee and legal counsel.
2. **Prepayment:** The Town retains the option to prepay the 2016 Obligations maturing on January 1, 2021 through and including January 1, 2024, without penalty or premium, on January 1, 2020 or any date thereafter.
3. **Fees and Expenses:** A detailed list of any fees and expenses that prospective bidders expect to charge, including fees and expenses of legal counsel and any other third party. All costs of execution and delivery of the 2016 Obligations will be paid from the proceeds of the 2016 Obligations.
4. **Rating:** The Town does not intend to apply for a rating on the 2016 Obligations.
5. **Denominations:** The 2016 Obligations shall be in the denomination of \$1,000 of principal amount or any integral multiples thereof. The Purchaser may arrange for CUSIP numbers at the Purchaser's cost.
6. **Transfers:** Unless otherwise consented to, transfers in interest in the 2016 Obligations are limited as set forth in the Purchase Contract and Certificate of Qualified Investor, forms of which are attached to this RFF.
7. **Disclosure:** No offering document or Official Statement will be prepared.
8. **Default Interest Rate:** Prospective bidders that elect to include a default interest rate in their proposals must limit the applicability of any default interest rate solely to a late payment event of default as described in Section 10(a)(1) of the Agreement. Any default interest rate may not exceed 5%.



APPENDIX A

EXCISE TAXES

The Excise Taxes pledged to the Payments due under the Agreement are to be applied to debt service on the 2016 Obligations and any Parity Obligations and include all unrestricted excise, transaction, franchise, privilege and business taxes, State-shared sales and income taxes, fees for licenses and permits, and State revenue sharing, now or hereafter validly imposed by the Town or contributed, allocated and paid over to the Town and not earmarked by the contributor for a contrary or inconsistent purpose (collectively, "Excise Taxes"). Revenues received by the Town from vehicle license taxes charged by the State of Arizona will not be deemed Excise Taxes for the purposes of the Agreement and the Trust Agreement. The Town may impose taxes for restricted purposes, the revenues from which will not be Excise Taxes thereunder and will not be pledged to the payment of the amounts due pursuant to the Agreement and Trust Agreement.

Revenues received by the Town from fines and forfeitures, permit fees, utility use and miscellaneous fees and interest earnings on Town funds will not be deemed Excise Taxes for purposes of the Agreement or Trust Agreement. Unless specifically pledged by the Town to be on a basis senior to the pledge described in the Town's resolution authorizing the execution and delivery of the 2016 Obligations, the Town's pledge of, and first lien on, its Excise Taxes is superior to, and shall have a priority over, any other pledge, agreement or financial policy of the Town. Revenues generated by the Town from building permits and development impact fees will not be deemed Excise Taxes for purposes of the Trust Agreement or the Agreement.

From time to time, bills are introduced in, and legislation enacted by, the Arizona Legislature to change the formulas used to allocate State-shared sales taxes and State-shared income taxes. The possibility of changes in this respect is more likely to be adverse to the Town when the State is experiencing financial difficulties. The Town cannot determine whether any such measures will become law or how they might affect the revenues which comprise State-shared revenues. In addition, initiative measures are circulated from time to time seeking to place on the ballot changes in Arizona law which would repeal or modify State sales taxes, State income taxes (the major source of funds for State revenue sharing) and vehicle license taxes. The Town cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

Transaction Privilege Tax

The Town's unrestricted transaction privilege (sales) tax is levied by the Town upon persons and entities on account of their business activities within the Town. The amount of taxes due is calculated by applying the tax rate against the gross proceeds of sales less applicable deductions and exemptions or gross income derived from the business activities shown in the table on the following page.



TOWN TRANSACTION PRIVILEGE TAX RATES BY CATEGORY

Category	Tax Rate (%)
Advertising	2.50
Amusements	2.50
Contracting	2.50
Job Printing	2.50
Manufactured Buildings	2.50
Timbering and Other Extraction	2.50
Publishing	2.50
Rental Commercial	2.50
Rental Residential	1.65
Rental Transient Lodging	3.40
Rental Personal Property	2.50
Retail General	2.50
Retail Food for Home Use	2.50
Restaurants/Bars	2.50
Hotel/Motel Lodging	2.50
Telecommunications	2.50
Transportation for Hire	2.50
Utilities	2.50

Source: Arizona Department of Revenue, *Transaction and Privilege and Other Tax Rate Tables* effective May 1, 2015.

**TOWN TRANSACTION PRIVILEGE TAX COLLECTIONS BY INDUSTRY CLASSIFICATION
AND TRANSIENT OCCUPANCY TAX COLLECTED**

The table below sets forth the Town’s unrestricted Transaction Privilege Tax (Sales) collections by industry classification and Transient Occupancy (Bed) Taxes collected for fiscal years 2010/11 through 2014/15.

Industry Classification	Audited				
	2014/15	2013/14	2012/13	2011/12	2010/11
Communications/Utilities	\$ 922,244	\$ 890,417	\$ 881,141	\$ 829,653	\$ 459,650
Construction	3,049,241	3,048,856	2,340,481	1,780,801	1,645,850
Manufacturing	135,788	128,060	133,431	119,098	81,724
Retail Trade	724,235	559,294	451,136	355,717	281,128
Finance/Insurance/Real Estate	375,473	288,739	262,889	251,196	201,843
Hospitality	4,981,595	4,536,958	4,338,311	4,007,195	2,527,486
Services	333,592	320,097	268,514	224,531	154,748
Other	925,217	528,389	559,740	535,705	191,385
Total Sales Tax Collected	\$ 11,447,385	\$ 10,300,810	\$ 9,235,643	\$ 8,103,896	\$ 5,543,814
Bed Tax Collected	\$ 3,117,450	\$ 2,835,515	\$ 2,727,892	\$ 2,523,288	\$ 2,400,955

Source: Finance Department of the Town.



State-Shared Sales Taxes

Pursuant to statutory formula, cities and towns in Arizona receive a portion of the State-levied transaction privilege (sales) tax. The State transaction privilege (sales) tax is levied against the same categories of business activity as the Town’s transaction privilege (sales) tax, with a few exceptions, the largest of which being food sales and residential rental which the State exempts from tax. As the table below indicates, the rate of taxation varies among the different types of business activities taxed, with the most common rate being 5% of the amount or volume of business transacted.

Under current State law, the aggregate amount distributed to all Arizona cities and towns is equal to 25% of the “distribution share” of revenues attributable to each category of taxable activity. The allocation to each city and town of the revenues available to all cities and towns is based on their population relative to the aggregate population of all cities and towns as shown by the latest census. State-levied transaction privilege (sales) taxes are collected by the State and are distributed monthly to cities and towns. **In addressing State budgetary deficiencies, the Governor and members of the State legislature have occasionally proposed certain adjustments that would reduce the distribution of State-Shared Sales Taxes to cities and towns. The Town cannot determine whether such measures will become law or how they might affect the Town’s receipt of State-Shared Sales Taxes.**

**STATE TRANSACTION PRIVILEGE (SALES) TAXES
Taxable Activities, Tax Rates and Distribution Share**

Taxable Activities	State Tax Rate	Distribution Share
Transportation	5.000%	20.000%
Utilities	5.000	20.000
Telecommunications	5.000	20.000
Pipeline	5.000	20.000
Private Car Line	5.000	20.000
Publication	5.000	20.000
Job Printing	5.000	20.000
Prime Contracting	5.000	20.000
Owner Builder Sales	5.000	20.000
Amusement	5.000	40.000
Restaurant	5.000	40.000
Personal Property - Rental	5.000	40.000
Retail (Excluding Food Sales)	5.000	40.000
Transient Lodging	5.500	50.000
Mining - Non-Metal, Oil/Gas	3.125	32.000
Commercial Lease	0.000	53.330
Severance - Metalliferous Mining	2.500	80.000
Use Tax Utilities	5.000	20.000
Jet Fuel Tax	(a)	40.000

Source: Arizona Department of Revenue, *Transaction and Privilege and Other Tax Rate Tables* effective May 1, 2015.

- (a) Does not include \$0.0305 per gallon State tax on the retail sale of jet fuel, which tax is only levied on the first ten million gallons sold to each purchaser in each calendar year.



State-Shared Income Taxes

Under current State law, Arizona cities and towns are preempted by the State from imposing a local income tax. Cities and towns are, however, entitled by statutory formula to typically receive 15% of State personal and corporate income tax collections. Distribution of such funds is made monthly based on the proportion of each city or town’s population to the total populations of all incorporated cities and towns in the State as determined by the latest census. **In addressing State budgetary deficiencies, the Governor and members of the State legislature have occasionally proposed certain adjustments that would reduce the distribution of State-Shared Income Taxes to cities and towns. The Town cannot determine whether any such proposals will occur in the future and become law or how they might affect the Town’s receipt of State-Shared Income Taxes.**

EXCISE TAX COLLECTIONS

The following table sets forth the Town’s Excise Tax collections for fiscal years 2010/11 through 2014/15.

Revenue Source	Audited				
	2014/15	2013/14	2012/13	2011/12	2010/2011
Town Transaction Privilege (Sales) Tax	\$11,447,385	\$10,300,810	\$9,235,643	\$8,103,896	\$5,543,814
Town Transient Occupancy (Bed) Tax	3,117,450	2,835,515	2,727,892	2,523,288	2,400,955
State-Shared Sales Tax	1,171,604	1,115,888	1,049,341	1,001,758	1,053,639
State-Shared Income Tax	1,551,940	1,428,952	1,309,535	1,082,017	1,349,324
Town Franchise Tax and Business License Fees	1,037,258	1,061,660	1,061,725	1,055,473	1,007,634
Total	\$18,325,636	\$16,742,825	\$15,384,136	\$13,766,432	\$11,355,367

Source: Finance Department of the Town.

EXCISE TAX OBLIGATIONS OUTSTANDING AND TO BE OUTSTANDING

Issue Series	Purpose	Original Amount	Maturity Dates	Balance Outstanding
Series 2009 MPC Bonds	Refunding	\$11,055,000	1/1/10-19	\$ 3,160,000
Series 2016 Obligations	Various		* 1/1/17-24 *	*
				*

* Subject to change.



APPENDIX B

BID FORM

Company Name: _____

The Town of Paradise Valley Town Council approved all documents associated with this transaction on January 14, 2016. A Purchase Contract is expected to be executed by February 3, 2016. Closing is scheduled for February 17, 2016.

Approximately
\$_____,000
Town of Paradise Valley, Arizona
Excise Tax Revenue Obligations, Series 2016

Interest Rate Bid: _____%

Total additional costs or fees of the Bidder to be paid from the proceeds of the 2016 Obligations: \$_____

Bidder acknowledges receipt and acceptance of the transaction documents pertaining to the 2016 Obligations and that the Interest Rate Bid is valid through the date the Purchase Contract is executed.

Authorized Signature

Date

Printed Name

Title