

STIFEL

Via email

November 3, 2014

Mr. Don McDaniel
County Manager
Gila County, Arizona

Re: Placement Agent/Underwriter Engagement Relating to Potential \$2,000,000 (est.), Excise Tax Revenue Obligations (New Money Project), Series 2014/2015

Dear Mr. McDaniel:

Gila County, Arizona (the “Issuer”) and Stifel, Nicolaus & Company, Incorporated (“Stifel”) are entering into this memorandum to confirm discussions related to the potential issuance of an estimated \$2,000,000 Excise Tax Revenue Obligations (New Money Project), Series 2014/2015 (the “Issue” or “Obligations”) and that the Issuer hereby engages Stifel as placement agent/underwriter with respect to the Issue [as defined in MSRB Rule G-23]. Issuer and Stifel acknowledge that, in all discussions that they will have concerning the potential municipal securities transaction, Stifel will not be serving in the role of municipal advisor as defined in the SEC’s Municipal Advisor Rule with current effective date of implementation of July 1, 2014. To that end, the Issuer agrees to provide specific project related information to Stifel and Stifel agrees to provide input to the Issuer relating to options concerning structure, timing, terms, and other similar matters related to the expected transaction referenced above.

Limitation of Engagement

This Memorandum establishes an engagement which does not obligate either party to execute a municipal securities transaction or to enter into an obligation purchase agreement or any other legally binding transaction. The engagement is preliminary in nature, and Issuer acknowledges that it intends or reasonably expects to engage Stifel as the placement agent/underwriter for the identified issuance of municipal securities. This engagement may be subject to conditions such as formal approval of the selection of Stifel as placement agent/underwriter by the applicable governing body and the formalization of the structure and terms for the sale or placement of the applicable municipal securities. Additionally, this Memorandum does not restrict the Issuer from entering into engagement letters with more than one underwriter, provided that the issuer reasonably expects to engage each such underwriter. This engagement is nonbinding and may be terminated immediately at any time for any reason by either party upon written notice.

Role Disclosure

The Issuer hereby confirms and acknowledges each of the following concerning the role that Stifel would have as an underwriter:

- (1) Municipal Securities Rulemaking Board Rule G-17 requires an underwriter to deal fairly at all times with both municipal issuers and investors;
- (2) the underwriter’s primary role is to purchase securities with a view to distribution in an arm’s-length commercial transaction with the issuer and it has financial and other interests that differ from those of the issuer;
- (3) unlike a municipal advisor, the underwriter does not have a fiduciary duty to the issuer under the federal securities laws and is, therefore, not required by federal law to act in the best interests of the issuer without regard to its own financial or other interests;

- (4) the underwriter has a duty to purchase securities from the issuer at a fair and reasonable price, but must balance that duty with its duty to sell municipal securities to investors at prices that are fair and reasonable; and
- (5) the underwriter will review the official statement for the issuer's securities, and complete requisite due diligence, in accordance with, and as part of, its responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the transaction.

Disclosures Concerning the Underwriter Compensation

The underwriter will be compensated by a fee and/or an underwriting discount that is outlined below and will be set forth in the obligation purchase agreement to be negotiated and entered into in connection with the issuance of the Obligations. Payment or receipt of the placement agent/underwriting fee or discount will be contingent on the closing of the transaction and the amount of the fee or discount may be based, in whole or in part, on a percentage of the principal amount of the Obligations. While this form of compensation is customary in the municipal securities market, it presents a conflict of interest since the underwriter may have an incentive to recommend to the Issuer a transaction that is unnecessary or to recommend that the size of the transaction be larger than is necessary.

Stifel will be compensated by an underwriting fee that is covered within the Strategic Alliance for Volume Expenditures Cooperative (SAVE) response to Crane ESD Request for Proposals #C-007-1213 (the "SAVE Consortium), which provides for underwriting of obligations of similar size, credit quality and amortization. Based on the anticipated size, credit quality and amortization of the Obligations issue herein, the estimated fee would not exceed 1.0% of principal plus expenses.

Conflicts of Interest Disclosures

Stifel has not identified any additional potential or actual material conflicts that require disclosure.

Disclosures Relating to Complex Municipal Securities Financing

Since Stifel has not recommended a "complex municipal securities financing" to the County, additional disclosures regarding the financing structure for the issuance of the Obligations are not required under MSRB Rule G-17.

However, if Stifel recommends, or if the Issue is ultimately structured in a manner considered a "complex municipal securities financing" to the County, this letter will be supplemented to provide disclosure of the material financial characteristics of that financing structure as well as the material financial risks of the financing that are known to us and are reasonably foreseeable at that time.

Sincerely,

Mark Reader, Managing Director



The Issuer acknowledges the foregoing.

Accepted and Executed

Don McDaniel, County Manager, Gila County

Date: _____

Copy: Michael Cafiso, Esq, Obligation Counsel, Greenberg Traurig
Sandra Park, Vice President, Stifel Nicolaus