



October 22, 2018

Mr. Robert Smith, City Manager  
City of Bisbee  
118 Arizona Street  
Bisbee, AZ 85603

Re: Underwriter/Placement Agent Engagement Relating to Potential Municipal Securities Transaction for \$2.5 million (estimated) Energy Improvement [WWTP, Buildings, Solar, Street Lights and related Various Public Infrastructure Improvements] Revenue Obligations, Series 2019

Dear Mr. Smith:

The City of Bisbee (the "Issuer") and Stifel, Nicolaus & Company, Incorporated ("Stifel") are entering into this engagement to confirm that they are engaged in discussions related to a potential issue of (or series of issuances of) municipal securities related to \$2.5 million (estimated) Energy Improvement [WWTP, Buildings, Solar, Street Lights and related Various Public Infrastructure Improvements] Revenue Obligations, Series 2019 (the "Issue") and to formalize Stifel's role as underwriter or placement agent with respect to the Issue.

***Engagement as Underwriter/Placement Agent***

Issuer is aware of the "Municipal Advisor Rule" of the Securities and Exchange Commission ("SEC") and the underwriter exclusion from the definition of "municipal advisor" for a firm serving as an underwriter or placement agent for a particular issuance of municipal securities. Issuer hereby designates Stifel as an underwriter or placement agent for the Issue. Issuer expects that Stifel will provide advice to Issuer on the structure, timing, terms and other matters concerning the Issue.

***Limitation of Engagement***

It is Issuer's intent that Stifel serve as an underwriter or placement agent for the Issue, subject to satisfying applicable procurement laws or policies, formal approval by the [governing body] of Issuer, finalizing the structure of the Issue and executing a bond purchase agreement or placement agent agreement, as applicable. While Issuer presently engages Stifel as the underwriter or placement agent for the Issue, this engagement letter is preliminary, nonbinding and may be terminated at any time by Issuer, without penalty or liability for any costs incurred by Stifel. Furthermore, this engagement letter does not restrict Issuer from entering into the Issue with any other underwriters or placement agents or selecting an underwriting syndicate that does not include Stifel.

***Role Disclosure***

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

- (1) Municipal Securities Rulemaking Board ("MSRB") Rule G-17 requires underwriters and placement agents 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 Issuer and it has financial and other interests that differ from those of Issuer;
- (3) the placement agent's primary role is to place securities directly with an investor or investors on behalf of the issuer without first purchasing the securities;
- (4) unlike a municipal advisor, the underwriter/placement agent does not have a fiduciary duty to Issuer under the federal securities laws and is, therefore, not required by federal law to act in the best interests of Issuer without regard to its own financial or other interests;
- (5) the underwriter has a duty to purchase securities from 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
- (6) the underwriter will review the official statement for Issuer's securities, 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.<sup>1</sup>

#### ***Disclosures Concerning the Underwriter's Compensation and Placement Agent Fee***

The underwriter will be compensated by a fee and/or underwriting discount that will be set forth in the bond purchase agreement to be negotiated and entered into in connection with the Issue. The placement agent will be compensated by a fee agreed upon with the Issuer in connection with the private placement of the Issue. Payment or receipt of the underwriting fee or discount or placement agent fee will be contingent on the closing of the transaction and the amount of the discount or fee may be based, in whole or in part, on a percentage of the principal amount of the Issue. While this form of compensation is customary in the municipal securities market, it presents a conflict of interest since the underwriter or placement agent may have an incentive to recommend to 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 with the Strategic Alliance for Volume Expenditures Cooperative (SAVE) response to Crane ESD for Proposal #C-005-1718 (the "SAVE Consortium"), which provides for underwriting of bonds of similar size, credit quality and amortization. Stifel will be compensated by a placement fee that will be set forth in the placement agent agreement to be negotiated and entered into in connection with the issuance of the Bonds.

#### ***Conflicts of Interest***

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 Issuer, additional disclosures regarding the financing structure for the Issue are not required under MSRB Rule G-17.

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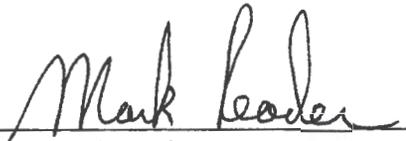
<sup>1</sup> Under federal securities law, an issuer of securities has the primary responsibility for disclosure to investors. The review of the official statement by the underwriter is solely for purposes of satisfying the underwriter's obligations under the federal securities laws and such review should not be construed by an issuer as a guarantee of the accuracy or completeness of the information in the official statement.

However, if Stifel recommends, or if the Issue is ultimately structured in a manner considered a "complex municipal securities financing" to the Issuer, 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.]

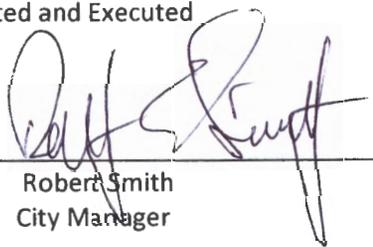
It is our understanding that you have the authority to bind the Issuer by contract with us, and that you are not a party to any conflict of interest relating to the subject transaction. If our understanding is incorrect, please notify the undersigned immediately.

Sincerely,

Stifel, Nicolaus & Company, Incorporated

By:   
Name: Mark Reader  
Title: Managing Director

Issuer acknowledges the foregoing.  
Accepted and Executed

By:   
Name: Robert Smith  
Title: City Manager

Date: 12/03/2018

cc: Keri Bagley, Finance Director – City of Bisbee  
Michael Cafiso, Esq., Bond Counsel – Greenberg Traurig