Town of Cortland

PMA Public Finance Overview, Outstanding Debt Analysis

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DIRECTOR
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PMA FINANCIAL NETWORK, INC.

August 18, 2016

PMA PUBLIC FINANCE OVERVIEW

PMA'S SENIOR PUBLIC FINANCE PERSONNEL

- Andrew Kim, Director | (630) 657-6449
  - Primary contact for the Town of Cortland ("Town")
  - Seven years of experience in public finance; joined PMA in March 2015
  - Responsible for expanding firm's public finance footprint among municipal units of government like the Town
  - Graduate of Northwestern University with BA in Economics and University of Chicago with a masters in Public Policy

- Greg Kubitz, Senior Vice President | (630) 657-6416
  - Secondary contact for the Town
  - Joined the firm in August 2002
  - Currently serves as Senior Vice President reporting to CEO in all aspects of the firm's operations
  - Resident of Town of Cortland since 2006
  - Graduate of NIU with BS in Finance and MBA

PMA'S SENIOR PUBLIC FINANCE PERSONNEL

- Bob Lewis, Managing Director | (630) 657-6445
  - Over 18 years in public finance, nine years at PMA
  - Manages the firm's public finance practice
  - Responsible for analysis and review of all transactions
  - Graduate of NIU with BS in Political Science and MA in Economics

PMA'S PROFILE

- PMA Securities, Inc., part of the PMA family which includes PMA Financial Network and Prudent Man Advisors, has been dedicated to serving the municipal marketplace for over 30 years

- PMA created a public finance department in 2005 and now has public finance offices in IL, WI and MN

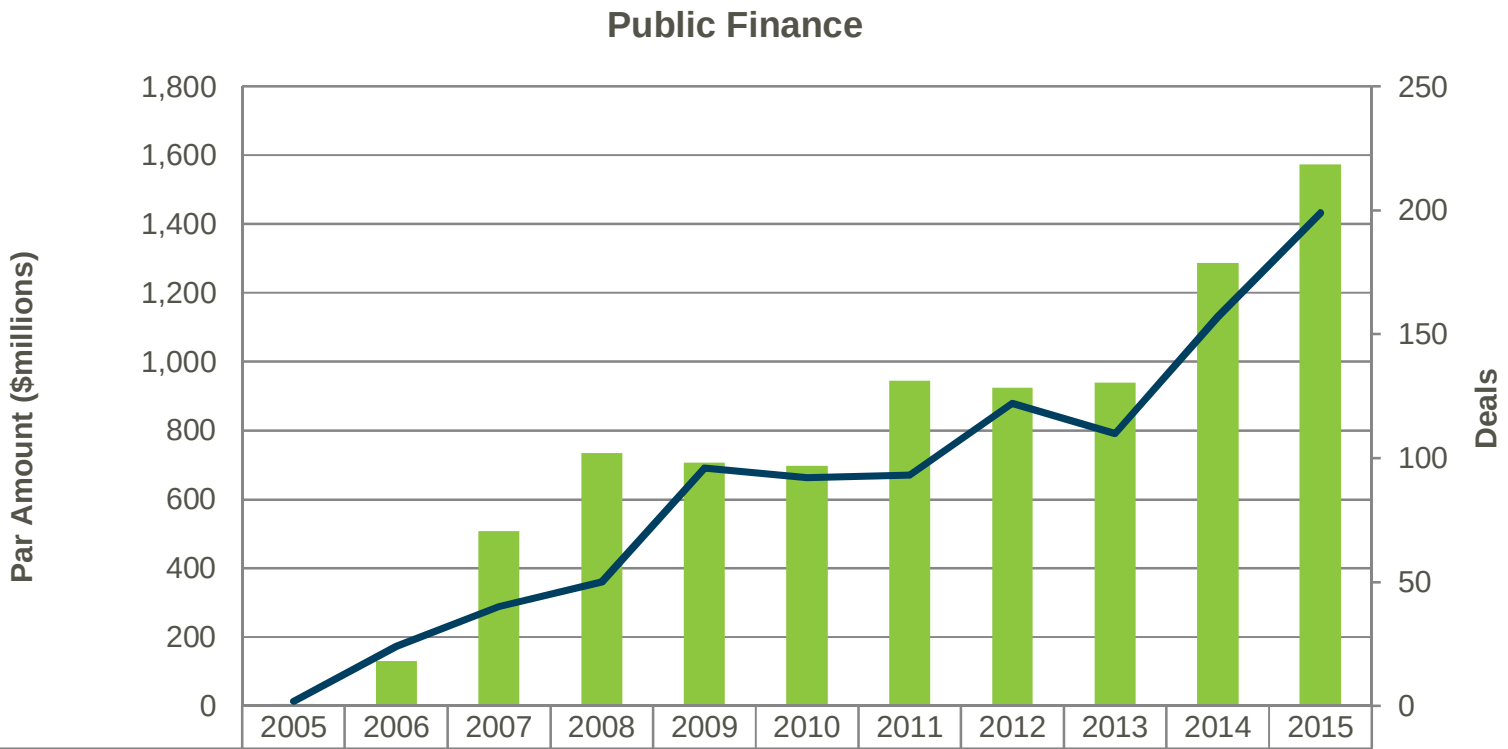
- Our financial advisory team consists of 15 individuals with experience in municipal, park district, K-12 and community college debt issuance

- PMA's successful resume of transactions ensures that we can provide the Town with a high level of service commitment, transaction control, reasonable expenses and transaction transparency

PMA'S APPROACH

- PMA provides multiple scenarios for the Town's review that take into consideration the following:
  - Current market conditions and trends
  - Impact of plan of finance on the Town's finances
  - Impact on bond rating
  - Review and/or recommend policies and procedures
- For each financing, PMA prepares a timetable for the working group to ensure that all of the necessary steps in the financing process occur on a timely basis
- PMA also performs the following services for each financing:
  - Make recommendation on bond sale approach
  - Prepare a detailed rating presentation and rehearse the rating presentation with the Town
  - Review legal documents for consistency with the plan of finance
  - Work with the Town on post-issuance compliance matters

- The growth of PMA's public finance department is a testament to the level of service we provide



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Par Amount	6.3	129.6	507.3	734.7	706.9	696.6	945.4	924.5	939.5	1,287	1,573
Deals	2	24	40	50	96	92	93	122	110	157	199

PMA'S PUBLIC FINANCE RANKINGS

- PMA was recently ranked as the #2 financial advisor to all Illinois local issuers for the 12-month period ending June 30, 2016[1]

- PMA Securities was recently ranked in the top ten financial advisors nationally by the number of bank qualified or small bond issues in calendar years 2013 through 2015 as published in The Bond Buyer

[1] Source: Thomson Reuters and emma.msrb.org. Based on the par amount of issues advised upon for Illinois financings under $200 million during the 12-month period ending June 30, 2015. Includes Financial Advisors on negotiated and competitive sales. Please note that past performance does not indicate future results.

COMPARABLE EXPERIENCE

- City of Country Club Hills ("Country Club Hills")
  - Recently completed $17 million refunding of 2006 Sales Tax Bonds
  - Refunding provided Country Club Hills over $2.75 million in aggregate cash flow savings
  - Net Present Value (NPV) savings of $2.12 million (11.65% of par refunded)
- Town of Mount Prospect ("Mount Prospect")
  - Recently completed $8.7 million refunding of 2006 Library Bonds
  - Refunding provided Mount Prospect over $847,000 in aggregate cash flow savings
  - Net Present Value (NPV) savings of $812,000 (9.02% of par refunded)
- Town of Crystal Lake
  - Worked on financings for water and sewer projects in 2012 and 2013
  - Refunded bonds for savings in 2012 and an IEPA loan in 2014
  - Currently working on financing for additional system improvements

- Illinois municipality experience of PMA's personnel

- City of Country Club Hills
- Village of Carol Stream
- City of Moline
- City of Berwyn
- Village of Streamwood
- City of Galena
- City of St. Charles
- Village of Woodridge
- City of Cary
- Village of Addison
- Village of Mt. Prospect
- Village of Lansing
- Rock River Water Reclamation District
- City of Crystal Lake
- Village of Villa Park
- City of East Peoria
- City of Peoria
- City of East Moline
- City of Elgin
- City of Crest Hill
- Village of Plainfield
- Village of Glen Carbon
- Village of Oak Lawn
- Village of Beach Park
- City of Bloomington
- Town of Normal

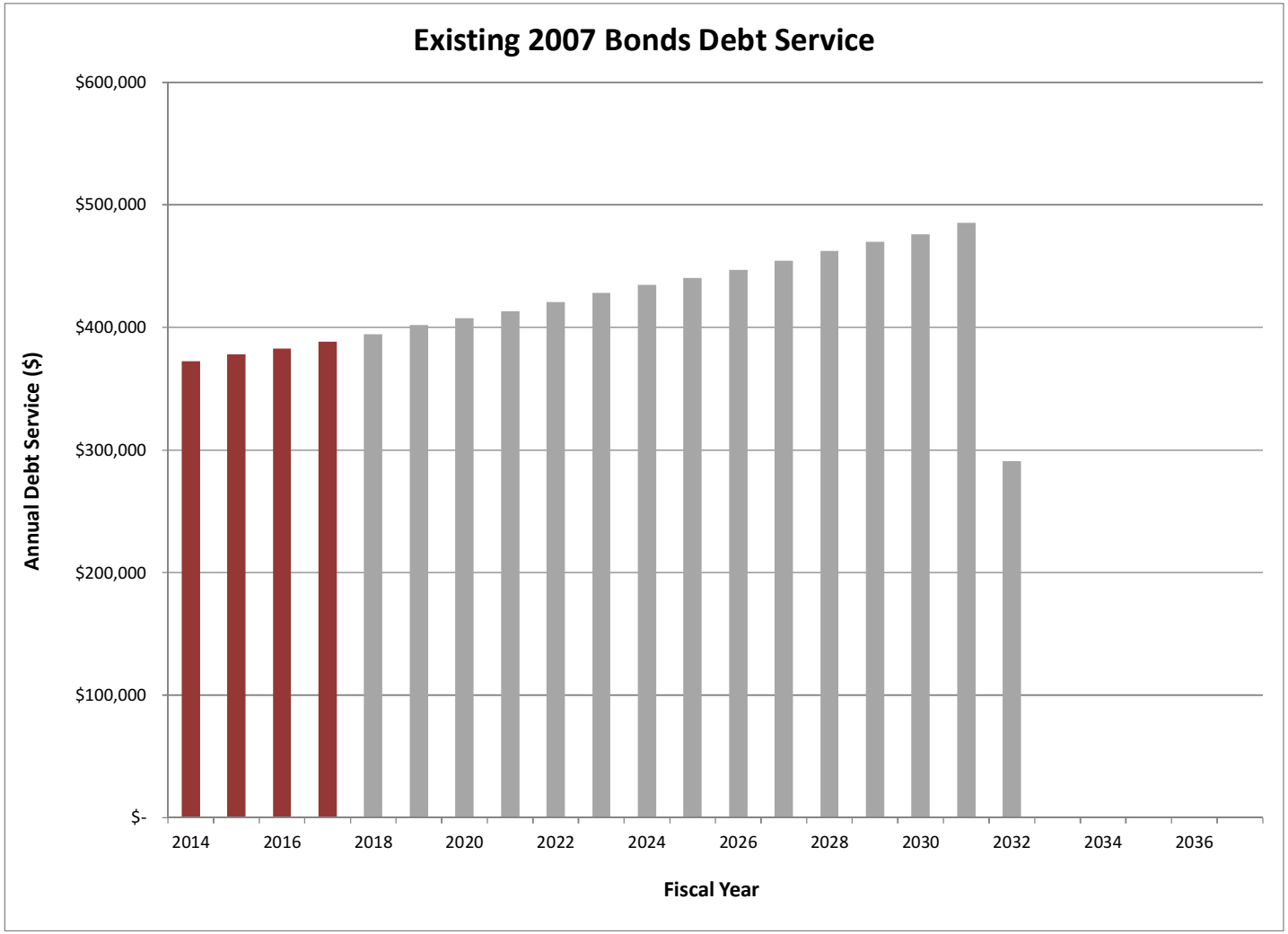
OUTSTANDING DEBT

ANNUAL PRINCIPAL AMOUNTS

Levy Year	Fiscal Year	Special Tax Refunding Bonds (SSA 1), Series 2007	Special Tax Bonds (SSA 9), Series 2007-1	Total	Ending Principal Balance	Cumulative Principal Retirement as Percent of Total
2014	2016	~~$ 157,000~~	~~$ 32,000~~	~~$ 189,000~~	~~$ 6,708,000~~	~~2.74%~~
2015	2017	169,000	37,000	206,000	6,691,000	2.99%
2016	2018	182,000	41,000	223,000	6,468,000	6.22%
2017	2019	198,000	46,000	244,000	6,224,000	9.76%
2018	2020	213,000	51,000	264,000	5,960,000	13.59%
2019	2021	229,000	56,000	285,000	5,675,000	17.72%
2020	2022	247,000	62,000	309,000	5,366,000	22.20%
2021	2023	266,000	68,000	334,000	5,032,000	27.04%
2022	2024	285,000	75,000	360,000	4,672,000	32.26%
2023	2025	304,000	81,000	385,000	4,287,000	37.84%
2024	2026	325,000	88,000	413,000	3,874,000	43.83%
2025	2027	348,000	96,000	444,000	3,430,000	50.27%
2026	2028	372,000	104,000	476,000	2,954,000	57.17%
2027	2029	397,000	113,000	510,000	2,444,000	64.56%
2028	2030	422,000	122,000	544,000	1,900,000	72.45%
2029	2031	451,000	132,000	583,000	1,317,000	80.90%
2030	2032	278,000	143,000	421,000	896,000	87.01%
2031	2033	-	154,000	154,000	742,000	89.24%
2032	2034	-	166,000	166,000	576,000	91.65%
2033	2035	-	179,000	179,000	397,000	94.24%
2034	2036	-	191,000	191,000	206,000	97.01%
2035	2037	-	206,000	206,000	-	100.00%
2036	2038	-	-	-	-	
	Totals:	$ 4,686,000	$ 2,211,000	$ 6,897,000		
	Purpose:	AR - 2002 SSA	Fund Deposits			
	Call Date:	03/01/17	03/01/17			
	Par Callable:	$ 4,517,000	$ 2,174,000	$ 6,691,000		

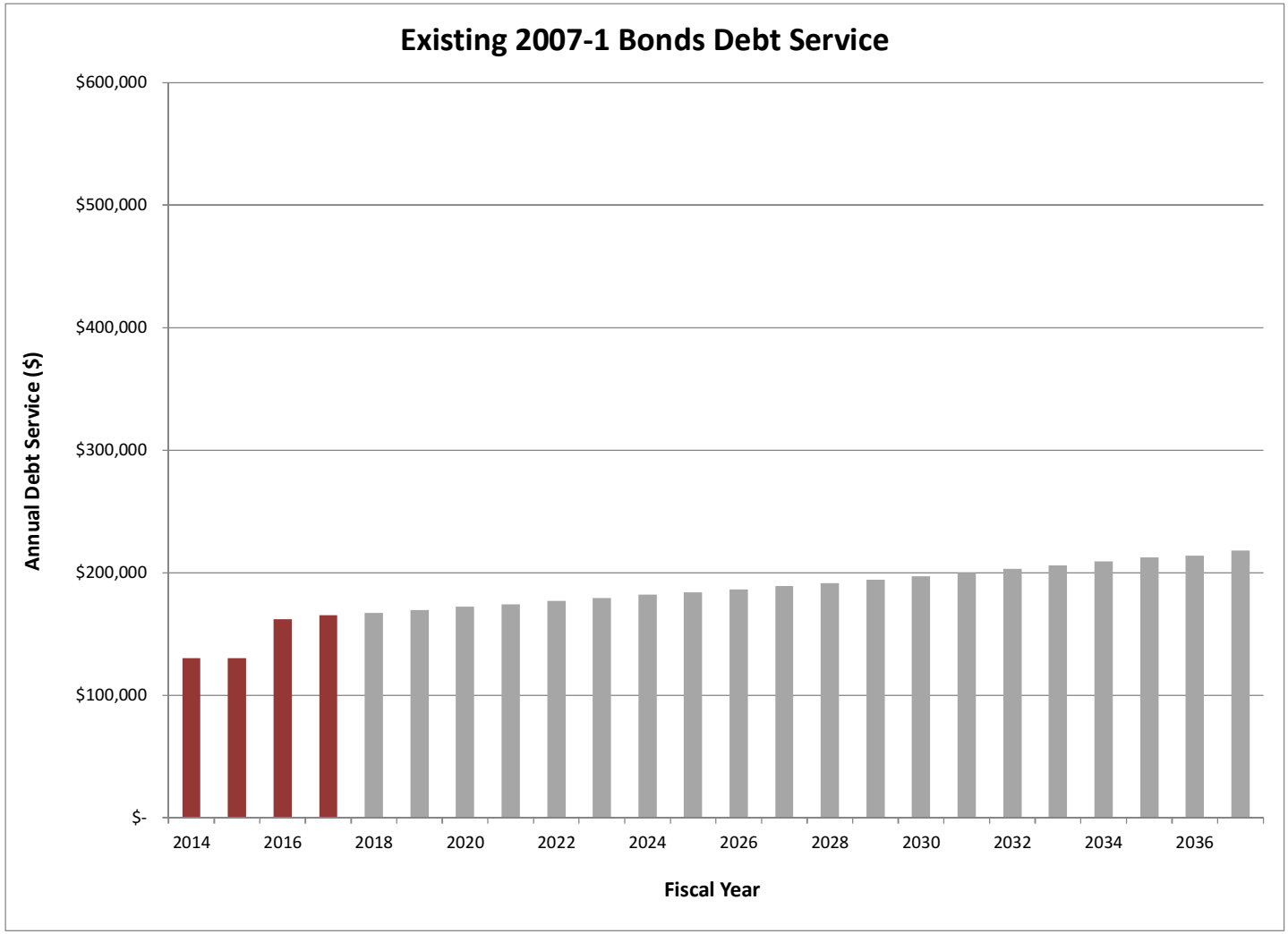
EXISTING 2007 BONDS DEBT SERVICE

Levy Year	Fiscal Year	Special Tax Refunding Bonds (SSA 1), Series 2007
2012	2014	~~$ 372,490~~
2013	2015	~~377,887~~
2014	2016	~~382,828~~
2015	2017	388,313
2016	2018	394,299
2017	2019	401,745
2018	2020	407,439
2019	2021	413,428
2020	2022	420,665
2021	2023	428,056
2022	2024	434,554
2023	2025	440,159
2024	2026	446,871
2025	2027	454,596
2026	2028	462,240
2027	2029	469,756
2028	2030	476,097
2029	2031	485,263
2030	2032	291,066
2031	2033	-
2032	2034	-
2033	2035	-
2034	2036	-
2035	2037	-
		$ 6,814,547



EXISTING 2007-1 BONDS DEBT SERVICE

Levy Year	Fiscal Year	Special Tax Bonds (SSA 9), Series 2007-1
2012	2014	~~$ 130,094~~
2013	2015	~~130,094~~
2014	2016	~~162,094~~
2015	2017	165,238
2016	2018	167,092
2017	2019	169,714
2018	2020	172,046
2019	2021	174,088
2020	2022	176,840
2021	2023	179,244
2022	2024	182,300
2023	2025	183,950
2024	2026	186,252
2025	2027	189,148
2026	2028	191,580
2027	2029	194,548
2028	2030	196,994
2029	2031	199,918
2030	2032	203,262
2031	2033	205,968
2032	2034	209,036
2033	2035	212,408
2034	2036	214,026
2035	2037	217,948
		$ 3,991,600



PMA'S ROLE AS FINANCIAL ADVISOR

- PMA's role as a Municipal (Financial) Advisor: **to advise and assist the Town in formulating and executing a debt financing plan**
  - Assist the Town in determining an optimal financing structure
  - Incorporate how the Town's debt needs connect with its operating needs and expectations
  - Assist the Town in determining the appropriate method of sale
  - Prepare the Official Statement (or Term Sheet) and rating agency presentation (if needed)
  - Help ensure that the Town secures the lowest borrowing cost possible, given current market conditions

- Role of an Underwriter: **to purchase bonds from the Town with the intent to resell them to investors**

DODD-FRANK ACT – FIDUCIARY DUTY

- Due to the Dodd-Frank Act, a financial advisor has a fiduciary duty to act in the best interest of its clients
  - Disclose all material conflicts of interest
  - Review and provide inquiry into reasonable financial alternatives to the financing
  - Act in the Town's best interest without regard to financial and other interests of the municipal advisor
  - A financial advisor represents the Town, and only the Town, in the sale of bonds
- Underwriters are not subject to a fiduciary duty, but are subject to a fair dealing requirement

UNDERWRITER EXCLUSIONS TO PROVIDE ADVICE

- Underwriters may provide advice on the structure, timing, terms, and similar matters concerning a transaction under the "underwriter exemption"
  - Only during the period of time beginning when they are engaged for a particular transaction and ending at the end of the underwriting period

- Outside of a specific engagement, underwriters may also provide further advice
  - When the government has hired an independent MA
  - "RFP" exemption applies
  - Underwriters may also provide many other types of information to municipal entities (including general market information and information about their qualifications) that does not rise to the level of advice without acting as a municipal advisor

MSRB Municipal Securities Rulemaking Board

Professionals Involved in a Negotiated Municipal Bond Transaction

- Municipal Advisor(s)
- State and Local Governments
- Bond Counsel

Deal Table

- Underwriter(s)
- Underwriting Syndicate Member
- Selling Group Members*
- Other Counsel*
- Underwriter's Counsel
- Feasibility Consultant*
- Auditor
- Trustee
- Credit Enhancer*
- Rating Agencies
- Disclosure Counsel*

This chart illustrates the various professionals involved in a negotiated municipal bond financing transaction.
* The type, size and feature of the bond transaction will determine the participation of these professionals.

REFUNDING OPPORTUNITIES

REFUNDING CANDIDATES

- Bond details of the SSA 1 Special Tax Refunding Bonds, Series 2007
  - $4,517,000 of the bonds will be callable on March 1, 2017 @ par
  - Currently, approximately $4,686,000 remain outstanding due March 1, 2017 through 2037
  - Interest rate of the callable bonds is 4.700%
  - The 2007 Bonds were issued to refund Town's SSA 1 Special Tax Bonds, Series 2002

- Bond details of the SSA 9 Special Tax Bonds, Series 2007-1
  - $2,174,000 of the bonds will be callable on March 1, 2017 @ par
  - Currently, $2,211,000 remain outstanding due March 1, 2017 through 2037
  - Interest rate of the callable bonds is 5.800%
  - The 2007-1 Bonds were issued to make deposits into various funds related to SSA 9

Notes and Assumptions:

1. 2016 refunding interest rates estimated at 6/14/2016 AAA MMD
2. Refunding bonds assumed to be non-rated

SUMMARY OF REFUNDING RESULTS

	2017 Refunding of 2007 Bonds	2017 Refunding of 2007-1 Bonds
	Uniform Savings Structure	Uniform Savings Structure
Total Refunding Par Amount	**$ 4,420,000**	**$ 2,150,000**
Total Refunded Par Amount	**$ 4,517,000**	**$ 2,174,000**
Total Cumulative Savings (1)	**$ 380,893**	**$ 437,210**
Total NPV Savings (1)	**293,735**	**302,659**
NPV Savings (as a % of Par Refunded) (1)	**6.503%**	**13.922%**
Estimated TIC (1)(2)	3.579%	3.966%
Average Coupon of Refunded Bonds	4.700%	5.800%
Average Annual Savings	23,806	20,820

(1) Rates based upon the "AAA" MMD index for June 2, 2016 and other market indications. Actual results may vary from those indicated.
(2) True Interest Cost (TIC) is the semiannual discount rate which equates the principal and interest payments to the purchase price paid by the purchaser.

Debt Service Comparison

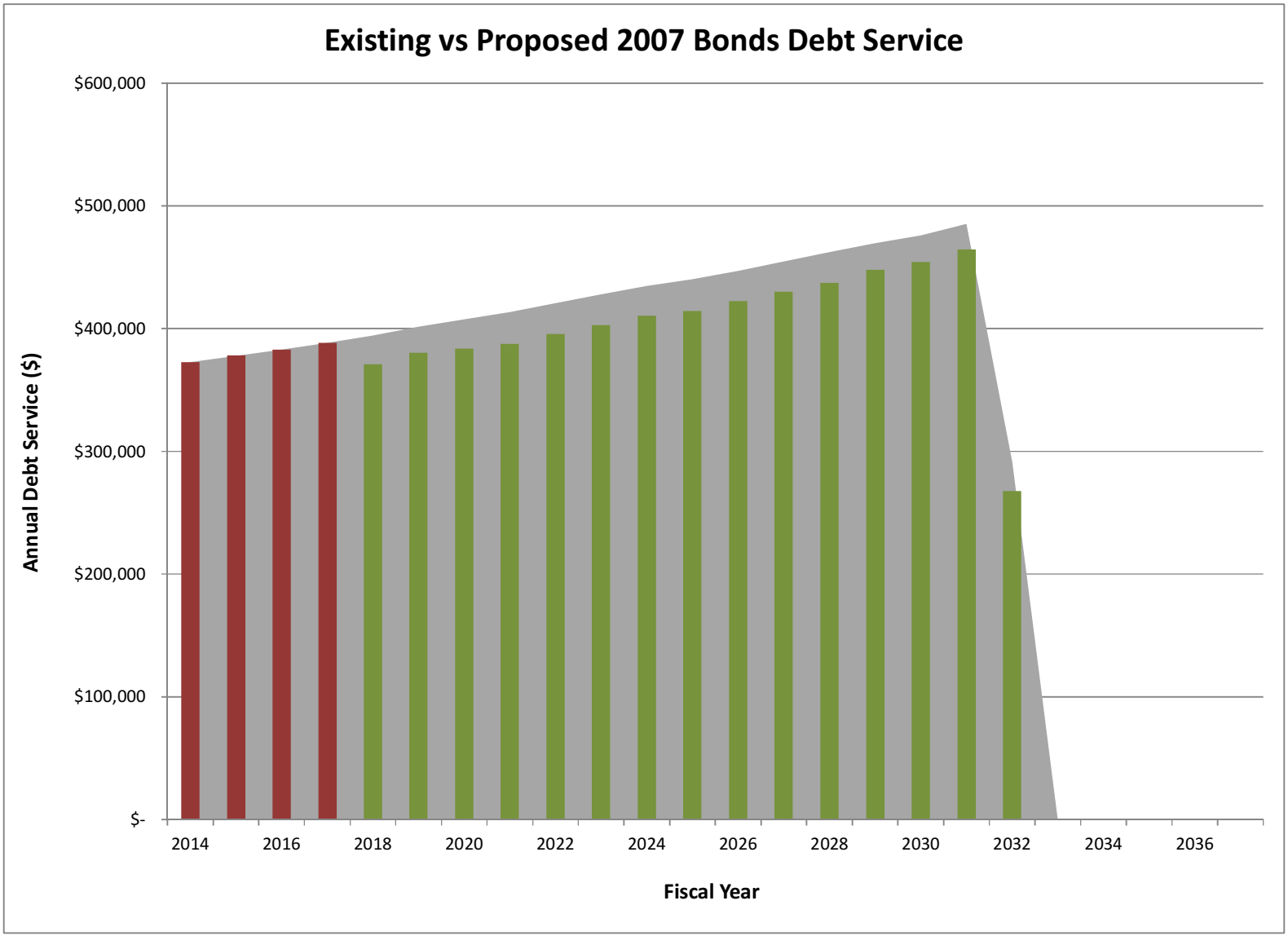
Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Savings
03/01/2017	82,440.56	172,506.75	254,947.31	278,656.25	23,708.94
03/01/2018	371,000.00	-	371,000.00	394,299.00	23,299.00
03/01/2019	380,150.00	-	380,150.00	401,745.00	21,595.00
03/01/2020	383,850.00	-	383,850.00	407,439.00	23,589.00
03/01/2021	387,250.00	-	387,250.00	413,428.00	26,178.00
03/01/2022	395,350.00	-	395,350.00	420,665.00	25,315.00
03/01/2023	403,000.00	-	403,000.00	428,056.00	25,056.00
03/01/2024	410,200.00	-	410,200.00	434,554.00	24,354.00
03/01/2025	414,200.00	-	414,200.00	440,159.00	25,959.00
03/01/2026	422,600.00	-	422,600.00	446,871.00	24,271.00
03/01/2027	430,200.00	-	430,200.00	454,596.00	24,396.00
03/01/2028	437,000.00	-	437,000.00	462,240.00	25,240.00
03/01/2029	448,000.00	-	448,000.00	469,756.00	21,756.00
03/01/2030	454,250.00	-	454,250.00	476,097.00	21,847.00
03/01/2031	464,250.00	-	464,250.00	485,263.00	21,013.00
03/01/2032	267,750.00	-	267,750.00	291,066.00	23,316.00
Total	**$6,151,490.56**	**$172,506.75**	**$6,323,997.31**	**$6,704,890.25**	**$380,892.94**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	293,446.49
Net PV Cashflow Savings @ 3.709%(AIC)	293,446.49
Contingency or Rounding Amount	288.51
Net Present Value Benefit	$293,735.00
Net PV Benefit / $4,517,000 Refunded Principal	6.503%

10 bp Sensitivity: Approximately $30,200 in Net PV Benefit and 0.70% as a % of Refunded Principal

PROPOSED ANNUAL 2007 BONDS DEBT SERVICE



Debt Service Comparison

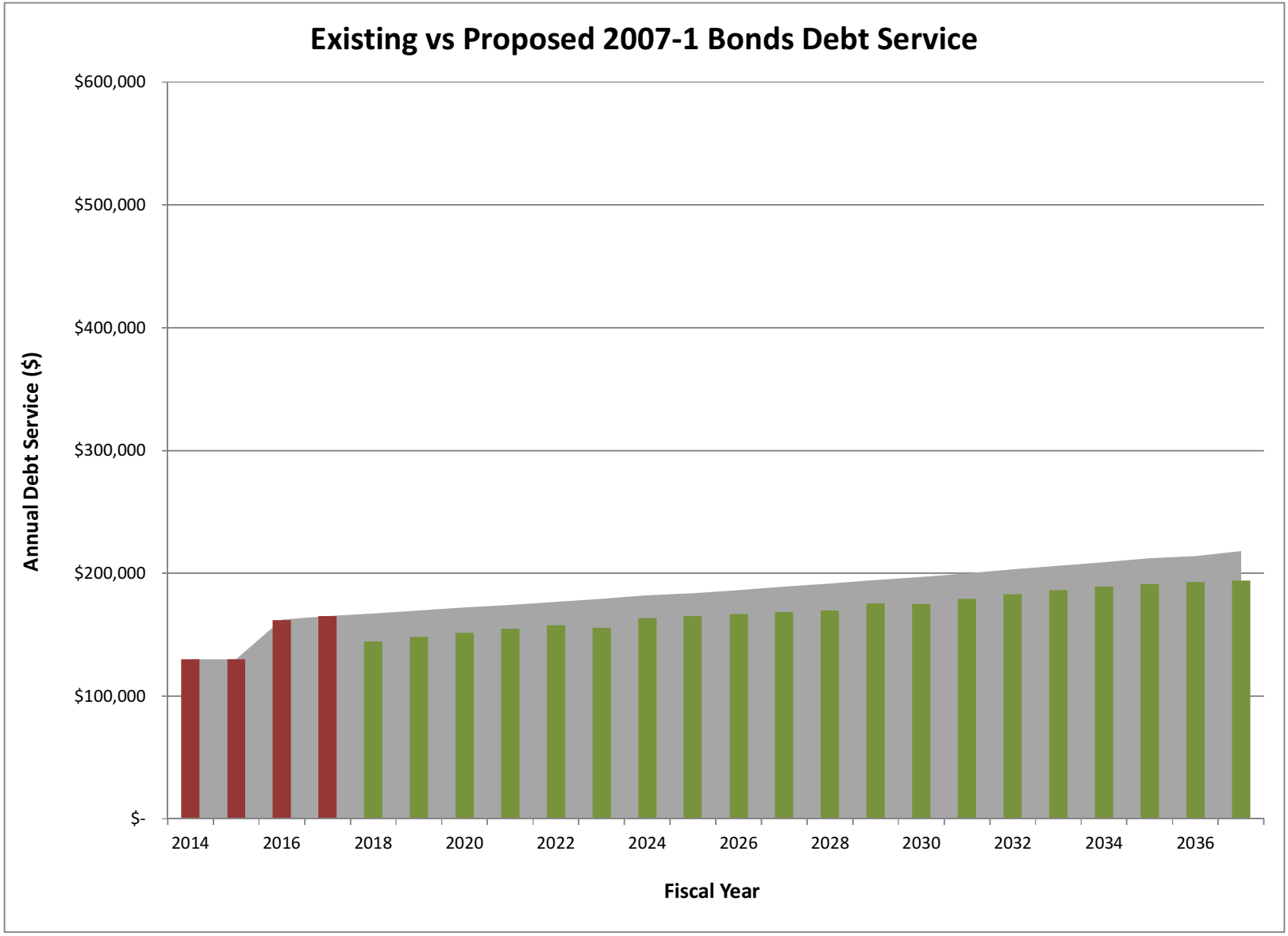
Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Savings
03/01/2017	40,097.78	38,073.00	78,170.78	101,119.00	22,948.22
03/01/2018	144,600.00	-	144,600.00	167,092.00	22,492.00
03/01/2019	148,100.00	-	148,100.00	169,714.00	21,614.00
03/01/2020	151,450.00	-	151,450.00	172,046.00	20,596.00
03/01/2021	154,650.00	-	154,650.00	174,088.00	19,438.00
03/01/2022	157,700.00	-	157,700.00	176,840.00	19,140.00
03/01/2023	155,600.00	-	155,600.00	179,244.00	23,644.00
03/01/2024	163,500.00	-	163,500.00	182,300.00	18,800.00
03/01/2025	165,300.00	-	165,300.00	183,950.00	18,650.00
03/01/2026	166,900.00	-	166,900.00	186,252.00	19,352.00
03/01/2027	168,300.00	-	168,300.00	189,148.00	20,848.00
03/01/2028	169,500.00	-	169,500.00	191,580.00	22,080.00
03/01/2029	175,500.00	-	175,500.00	194,548.00	19,048.00
03/01/2030	175,000.00	-	175,000.00	196,994.00	21,994.00
03/01/2031	179,250.00	-	179,250.00	199,918.00	20,668.00
03/01/2032	183,000.00	-	183,000.00	203,262.00	20,262.00
03/01/2033	186,250.00	-	186,250.00	205,968.00	19,718.00
03/01/2034	189,000.00	-	189,000.00	209,036.00	20,036.00
03/01/2035	191,250.00	-	191,250.00	212,408.00	21,158.00
03/01/2036	193,000.00	-	193,000.00	214,026.00	21,026.00
03/01/2037	194,250.00	-	194,250.00	217,948.00	23,698.00
Total	**$3,452,197.78**	**$38,073.00**	**$3,490,270.78**	**$3,927,481.00**	**$437,210.22**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	301,781.08
Net PV Cashflow Savings @ 4.065%(AIC)	301,781.08
Contingency or Rounding Amount	877.80
Net Present Value Benefit	$302,658.88
Net PV Benefit / $2,174,000 Refunded Principal	13.922%

10 bp Sensitivity: Approximately $17,500 in Net PV Benefit and 0.80% as a % of Refunded Principal

PROPOSED ANNUAL 2007-1 BONDS DEBT SERVICE



SUMMARY OF 2007 REFUNDING IMPACT

		LY 2015		LY 2016		LY 2017		LY 2018	
		Existing	Post Refunding	Existing	Post Refunding	Existing	Post Refunding	Existing	Post Refunding
Taxes	Maximum Special Tax (1)	$2,035	$2,035	$2,066	$2,066	$2,097	$2,097	$2,128	$2,128
	Maximum Special Taxes (2)	$476,220	$476,220	$483,363	$483,363	$490,614	$490,614	$497,973	$497,973
Dwelling Units	Total Units	234	234	234	234	234	234	234	234
	Unpaid Units	232	232	232	232	232	232	232	232
	Prepaid Units	2	2	2	2	2	2	2	2
Revenue	Special Taxes Billed	$472,149.74	N/A	$479,231.69	$479,232	$486,420.72	$486,421	$493,716.82	$493,717
Sources	First Int Payment (9/1)	**$109,656**	**N/A**	**$106,149**	**$88,000**	**$101,872**	**$85,075**	**$97,219**	**$81,925**
	Second Int Payment (3/1)	**$109,656**	**N/A**	**$106,149**	**$88,000**	**$101,872**	**$85,075**	**$97,219**	**$81,925**
	Principal (3/1)	**$169,000**	**N/A**	**$182,000**	**$195,000**	**$198,000**	**$210,000**	**$213,000**	**$220,000**
	Admin. Expense (3)	$20,400	N/A	$20,808	$20,808	$21,224	$21,224	$21,649	$21,649
	Contingency (4)	$16,743	N/A	$16,743	$16,743	$16,743	$16,743	$16,743	$16,743
		$425,456	**N/A**	**$431,849**	**$408,551**	**$439,711**	**$418,117**	**$445,830**	**$422,242**
	Surplus/(Deficit)	**$46,694**	**N/A**	**$47,382**	**$70,680**	**$46,709**	**$68,303**	**$47,886**	**$71,474**
	Refunding Benefit		**N/A**		**$23,298**		**$21,594**		**$23,588**
	Refunding Benefit per Unpaid Dwelling Unit		**N/A**		**$100**		**$93**		**$102**

Notes:

(1) Maximum Special Tax is per Dwelling Unit

(2) Maximum Special Taxes is aggregate taxes for entire Special Service Area

(3) Administration Expenses provided as detailed in Town's 2015 Annual Continuing Disclosure report

(4) Contingency expense is 2014 expense as detailed in Town's 2015 Annual Continuing Disclosure report ; analysis assumes Contingency expense does not change year to year

SUMMARY OF 2007-1 REFUNDING IMPACT

		LY 2015		LY 2016		LY 2017		LY 2018	
		Existing	Post Refunding	Existing	Post Refunding	Existing	Post Refunding	Existing	Post Refunding
Taxes	Maximum Special Tax (1)	$2,003	$2,003	$2,033	$2,033	$2,064	$2,064	$2,094	$2,094
	Maximum Special Taxes (2)	$418,627	$418,627	$424,897	$424,897	$431,167	$431,167	$437,646	$437,646
Dwelling Units	Total Units	209	209	209	209	209	209	209	209
	Unpaid Units	92	92	92	92	92	92	92	92
	Prepaid Units	117	117	117	117	117	117	117	117
Revenue	Special Taxes Billed	$184,276	N/A	$187,040	$187,040	$189,846	$189,846	$192,693	$192,693
Sources	First Int Payment (9/1)	**$64,119**	**N/A**	**$63,046**	**$47,300**	**$61,857**	**$46,550**	**$60,523**	**$45,725**
	Second Int Payment (3/1)	**$64,119**	**N/A**	**$63,046**	**$47,300**	**$61,857**	**$46,550**	**$60,523**	**$45,725**
	Principal (3/1)	**$37,000**	**N/A**	**$41,000**	**$50,000**	**$46,000**	**$55,000**	**$51,000**	**$60,000**
	Admin. Expense (3)	$23,843	N/A	$23,843	$23,843	$23,843	$23,843	$23,843	$23,843
	Reserve Fund Replenishment (3)	$50,428	N/A	$50,428	$50,428	$50,428	$50,428	$50,428	$50,428
		$239,509	**N/A**	**$241,363**	**$218,871**	**$243,985**	**$222,371**	**$246,317**	**$225,721**
	Surplus/(Deficit)	**($55,233)**	**N/A**	**($54,323)**	**($31,831)**	**($54,139)**	**($32,525)**	**($53,624)**	**($33,028)**
	Refunding Benefit		**N/A**		**$22,492**		**$21,614**		**$20,596**
	Refunding Benefit per Unpaid Dwelling Unit (4)		**N/A**		**$244**		**$235**		**$224**

Notes:

(1) Maximum Special Tax is per Dwelling Unit

(2) Maximum Special Taxes is aggregate taxes for entire Special Service Area

(3) Analysis assumes these expenses do not change year to year

(4) Refunding benefit per Unpaid Dwelling Unit only applies if a surplus exists and the Maximum Special Tax is not required

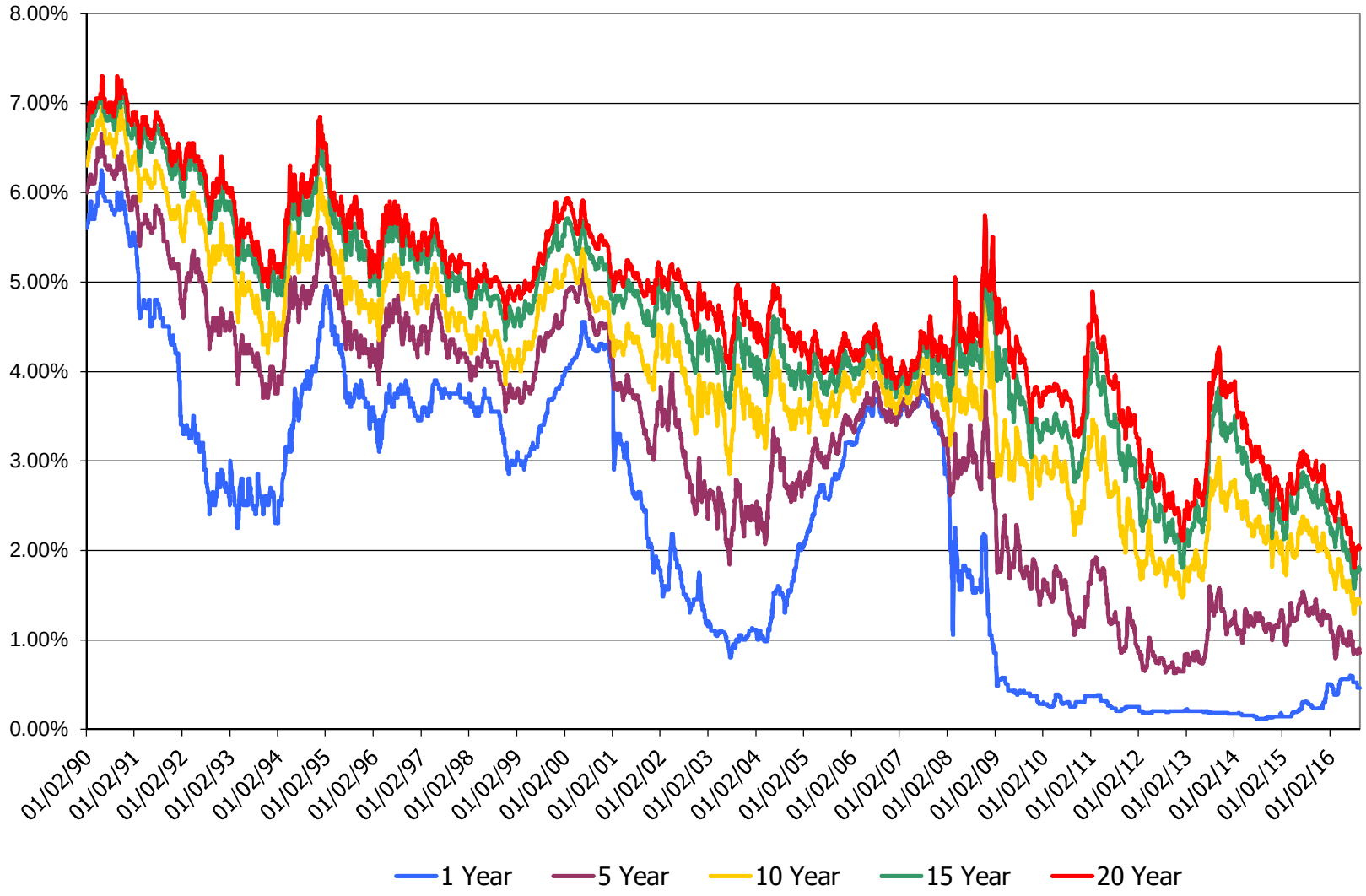
APPENDIX A: MARKET UPDATE

THE MMD "AAA" INDEX

- The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates

- Issuers' bond yields are priced relative to the MMD
  - At a "spread" to the MMD
  - The spread varies due to the following:
    - Credit rating
    - Bank qualification
    - Length of maturity
    - Coupon or interest rates

HISTORICAL INTEREST RATE GRAPH



*The Municipal Market Data "MMD" is a AAA municipal bond market index produced by TM3. As of August 16, 2016.

VARIABLES THAT IMPACT THE MUNICIPAL BOND MARKET

FED Reserve Policy
Quantitative Easing
Fed Funds Rate

Budget and Credit of the US Government

Inflation Expectations

Health of national, state and local economies

State of Illinois Fiscal Challenges – Pension Situation

Bank Qualification

Municipal Bond Supply and Demand

Europe

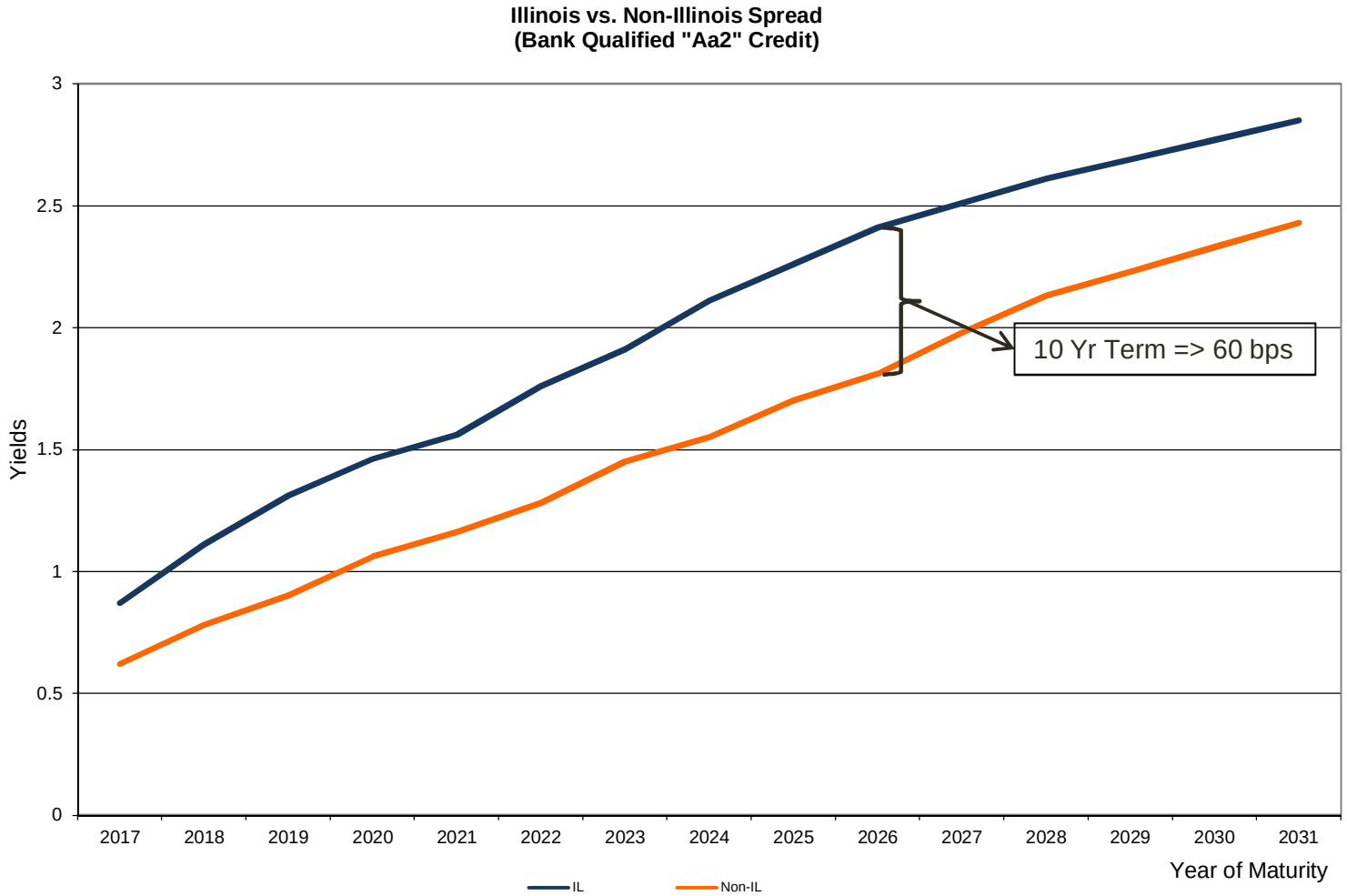
Chicago's Fiscal Challenges

Municipal Bankruptcies (e.g. Detroit)

Credit ratings of state and local governments

Level of federal and state income taxes

- The Illinois penalty will vary depending on term and credit rating. In this example it is approximately 0.60% in 2026



Highlighted Illinois transaction was sold on 2/17/16. Highlighted non-Illinois transaction was sold on 2/9/16.

Information is for illustrative purposes only and does not guarantee results for the Town.

APPENDIX B:
CONTINUING DISCLOSURE

The information contained herein is solely intended to suggest/discuss potentially applicable financing applications and is not intended to be a specific buy/sell recommendation, nor is it an official confirmation of terms. Any terms discussed herein are preliminary until confirmed in a definitive written agreement.

The analysis or information presented herein is based upon hypothetical projections and/or past performance that have certain limitations. No representation is made that it is accurate or complete or that any results indicated will be achieved. In no way is past performance indicative of future results. Changes to any prices, levels, or assumptions contained herein may have a material impact on results. Any estimates or assumptions contained herein represent our best judgment as of the date indicated and are subject to change without notice. Examples are merely representative and are not meant to be all-inclusive. The information set forth herein was gathered from sources which we believe, but do not guarantee, to be accurate. Neither the information, nor any options expressed, constitute a solicitation by us for purposes of sale or purchase of any securities or commodities. Investment/financing decisions by market participants should not be based on this information.

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