**STATE OF TENNESSEE**
**COMPTROLLER OF THE TREASURY**
**OFFICE OF STATE AND LOCAL FINANCE**
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January 20, 2012

Honorable Mark H. Luttrell, Mayor
Shelby County
106 North Main Street, Suite 850
Memphis, TN 38103

Dear Mayor Luttrell:

This letter acknowledges receipt of a letter on January 5, 2012, from Mr. Michael A. Swift, Director of the Division of Administration and Finance for Shelby County, requesting a report of the review of a refunding plan to refund up to the full amount outstanding on four debt issues:

- $23,930,000 Special General Obligation School Bonds, 2003 Series A (the "2003 Rural School Bonds");
- $25,550,000 General Obligation Public Improvement and School Bonds, 2003 Series A (the "2003A Bonds");
- $237,705,000 General Obligation Variable Rate Demand Public Improvement and School Bonds, 2004 Series B (the "2004B Bonds"); and
- $213,070,000 General Obligation Variable Rate Demand Refunding Bonds, 2006 Series C (the "2006C Bonds") (jointly, the "Outstanding Bonds").

However, Shelby County (the "County") currently expects to refund a total of $167,645,000 of the Outstanding Bonds through the proposed issuance of:

- $133,755,000 General Obligation Refunding Bonds, 2012 Series A (the "Series 2012A Bonds") and
- $15,150,000 Special General Obligation Rural School Refunding Bonds, 2012 Series B Bonds (the "Series 2012B Bonds" (jointly with the Series 2012A Bonds, the "Series 2012 Bonds").

The Series 2012A Bonds are proposed to currently refund all or a portion of the 2003A Bonds, the 2004B Bonds, and the 2006C Bonds. By telephone calls on January 19 and 20, 2012, Mr. Swift clarified the refunding plan, indicating that the County would increase the amount of the Series 2012A Bonds to refund more of the 2004B Bonds and of the 2006C Bonds if the County is able to achieve a breakeven rate (4.115% and 3.83% respectively). The Series 2012B Bonds are proposed to advance refund the 2003 Rural School Bonds.

Pursuant to the provisions of *Tennessee Code Annotated* Title 9, Chapter 21, arefunding plan must be submitted to our Office for review prior to the adoption of a resolution by the governing body of a local government authorizing the issuance of refunding bonds secured, in whole or in part, by the full faith and credit and unlimited taxing power of that government. Enclosed is a report of the review of this refunding plan required by *Tennessee Code Annotated* Section 9-21-903 for distribution to the members of the local governing body.

**The enclosed report does not constitute approval or disapproval for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the outstanding obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity.**

**This letter and enclosed report do not address compliance with federal tax regulations and are not to be relied upon for that purpose. The County should discuss these issues with a bond counsel or tax attorney.**

This report and the submitted plan of refunding are to be published and placed on the County's website prior to the meeting of the Commission. The same report is to be provided to each member of the Commission and reviewed at the Public Meeting on January 23, 2012.

**Compliance with the County's Debt Management Policy**

The County's debt management policy provides the following criteria for refundings:

1. Total present value savings are at least 3% of the par amount of the refunded bonds;
2. Current savings are acceptable when compared to savings that could be achieved by waiting for more favorable interest rates and/or call premiums;
3. The bonds to be refunded have restrictive or outdated covenants or are required to be refunded for tax purposes; or
4. Restructuring debt is deemed to be in the best interest of the County by the Director of Administration and Finance and by the financial advisor(s).

The stated purpose for the plan "is to achieve aggregate net present value cost savings of approximately $7,635,280 or approximately 4.55% of the refunded bonds based on current market conditions and to reduce variable rate debt risk." Additionally, the purpose for the refunding of the 2004B and 2006C Bonds is "to reduce the risks of variable rate debt and exposure to third parties (liquidity provider- Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch ("Helaba") and swap counterparties- Goldman Sachs Mitsui Marine Derivative Products, L.P. and Loop Financial Products I, LLC)." The County proposes to terminate in part the interest rate agreement related to the 2006C Bonds (by reducing the notional amount by $50,115,000). The County also proposes to terminate one of the interest rate agreements related to the 2004B Bonds with a notional amount of $68,050,000.

The Plan describes how the refunding of each series of Outstanding Bonds complies with the County's debt management policy. The terminations of interest rate agreements associated with the 2004B Bonds and the 2006C Bonds appears to meet the objectives of the County's derivative guidelines and policy contained within the debt management policy.

*This report is effective for a period of one hundred and twenty (120) days. If the refunding has not been completed during this time, a supplemental plan of refunding must be submitted to this Office, at that time we will issue a report thereon pursuant to the statutes. In lieu of submitting a supplemental plan, a statement may be submitted to our Office after the 120-day period has elapsed stating that the information contained in the current plan of refunding remains valid. Such statement must be submitted by either the Chief Executive Officer or the Chief Financial Officer of the local government. We will acknowledge receipt of such statement and will issue our letter confirming that this refunding report remains valid for an additional 120-day period. However, with regard to the report currently being issued by this Office, during the initial 120-day period or any subsequent 120-day period no further refunding report will be issued relating to the debt obligations indicated herein as being refunded unless the Chief Executive Officer or the Chief Financial Officer notifies our Office that the plan of refunding which has been submitted is no longer valid.*

*We recognize that the information provided in the plan submitted to our Office is based on preliminary analysis and estimates, and that actual results will be determined by market conditions at the time of sale of the debt obligations. However, if it is determined prior to the issuance of these obligations that the actual results will be significantly different from the information provided in the plan which has been submitted, and the local government determines to proceed with the issue, our Office should subsequently be notified by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences, and that the local government was* *aware of the differences and determined to proceed with the issuance of the debt obligations. Notification to our Office will be necessary only if there is an increase or decrease of greater than fifteen percent (15%) in any of the following: (1) the principal amount of the debt obligations issued; (2) the costs of issuance; (3) the cumulative savings or loss with regard to any refunding proposal. We consider this notification necessary to insure that this Office and officials of the local government are aware of any significant changes that occur with regard to the issuance of the proposed indebtedness.*

Enclosed is a revised form CT-0253 - Report on Debt Obligation. The Form CT-0253 must be filed with the governing body of the public entity issuing the Debt not later than forty-five (45) days following the issuance or execution of a debt obligation by or on behalf of any public entity, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance (by email to StateandLocalFinance.PublicDebtForm@cot.tn.gov). No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation.

Sincerely,

Mary-Margaret Collier

Mary-Margaret Collier
Director of the Office of State & Local Finance

Cc: Mr. Jim Arnette, Director of County Audit, COT
Mr. Michael A. Swift, Director of Administration and Finance
Ms. Lisa Daniel, PFM, Inc.
Ms. Pamela Z. Clary, ComCap Advisors
Mr. Richard J. Miller, Esq., Edwards Wildman Palmer LLP

Enclosures (2): Report of the Director of the Office of State & Local Finance
State Form CT-0253, Report on Debt Obligation.

**REPORT OF THE TENNESSEE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE CONCERNING THE PROPOSED ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS, 2012 SERIES A (CURRENT REFUNDING) AND SPECIAL GENERAL OBLIGATION RURAL SCHOOL REFUNDING BONDS, 2012 SERIES B (ADVANCED REFUNDING) SHELBY COUNTY, TENNESSEE**

Shelby County (the "County") submitted a plan of refunding (the "Plan") dated January 4, 2012, as required by *Tennessee Code Annotated* Section 9-21-903 regarding the proposed refunding of up to the total outstanding amount ($499,715,000) of four debt issues:

- $23,930,000 Special General Obligation School Bonds, 2003 Series A (the "2003 Rural School Bonds");
- $25,550,000 General Obligation Public Improvement and School Bonds, 2003 Series A (the "2003A Bonds");
- $237,705,000 General Obligation Variable Rate Demand Public Improvement and School Bonds, 2004 Series B (the "2004B Bonds"); and
- $213,070,000 General Obligation Variable Rate Demand Refunding Bonds, 2006 Series C (the "2006C Bonds") (jointly, the "Outstanding Bonds").

There are two interest rate agreements associated with the 2004B Bonds (Goldman Sachs Mitsui Marine Derivative Products, L.P. or "GSMMDP", and Loop Financial Products I, LLC or "Loop") and one with the 2006C Bonds (GSMMDP). The 2006C interest rate agreement is classified as an integrated swap.

The County currently anticipates refunding $167,645,000 of the Outstanding Bonds with cash and other funds and through the issuance at a premium of approximately:

- $133,755,000 in General Obligation Refunding Bonds, 2012 Series A (the "2012A Bonds") for the purposes of cost savings and the reduction of variable rate interest risk, and
- $15,150,000 Special General Obligation Rural School Refunding Bonds, 2012 Series B (the "2012B Bonds") for the purposes of cost savings and the acceleration of debt maturity.

The Plan estimates the premiums generated will be $17,689,245.10 for the Series 2012A Bonds and $1,643.374.90 for the Series 2012B Bonds. The County will fund the termination fee for the GSMMDP interest rate agreement associated with the 2004B Bonds with cash on hand; the Loop interest rate agreement will not be terminated. The County will terminate the portion of the GSMMDP interest rate agreement associated with the 2006C Bonds that is refunded and will fund the termination fee with proceeds from the 2012A Bonds.

The 2012A Bonds will currently refund:

- $25,550,000 2003A Bonds;
- $68,050,000 2004B Bonds; and
- $50,115,000 2006C Bonds.

The 2012B Bonds will advance refund the 2003 Rural School Bonds in the amount of $23,930,000.

The Plan was prepared with the assistance of the County's Financial Advisors (Public Financial Management, Inc. and CompCap Advisors) and it's Bond Counsel (Edwards Wildman Palmer LLP). The County plans to issue the 2012A and 2012B Bonds through negotiated sale anticipated to occur in mid-February 2012.

**Analysis**

The County has a debt management policy that requires a minimum total present value savings threshold of 3% of the par amount of the refunded bonds for cost savings. The policy also permits restructuring when deemed to be in the best interest of the County, including the elimination of risk. The refunding as described in the Plan appears to meet the policy's criteria. The termination of the interest rate agreements together with the refunding of the related debt appears to meet the criteria for termination of a derivative in the County's Derivative Guidelines and Policy.

Based on the County's current expectations, the weighted average maturity of the Outstanding Bonds is 7.62 years and the weighted average maturity of the 2012A and 2012B Bonds is 6.94 years. The final maturity of the 2012A Bonds is March 1, 2028 compared with March 1, 2028- the final maturity of the bonds being refunded; the final maturity of the 2012B Bonds is November 1, 2019 compared with November 1, 2028 for the 2003 Rural School Bonds.

Sources and uses schedule can be found on pages 1 of the Plan. Total cost of issuance including swap termination fees for the 2012A Bonds is $14,243,013 or $106.49 per $1,000 of par amount for the 2012A Bonds; excluding swap termination fees, the cost of issuance for the 2012A Bonds is $1,279,013 or $9.56 per $1,000 of par amount. Total cost of issuance for the 2012B Bonds is $144,870 or $9.56 per $1,000 of par amount of the 2012B Bonds.

The County has indicated the desire to issue additional 2012A Bonds if market conditions permit the County to achieve an effective refunding rate of 4.115% for the 2004B Bonds and 3.83% for the 2006C Bonds (the County would correspondingly reduce the notional amount of the 2006C interest rate agreement.) Although specific structuring information was not provided for this possibility, it appears that such a refunding would meet the criteria stated in the County's debt management policy.

**This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office of the proposed Plan or a determination that a refunding is advantageous or necessary nor that any of the refunded obligations should be called for redemption on the first or any subsequent available redemption date or remain refunded until their respective dates of maturity. This report is based on information as presented in the Plan. The assumptions included in the County's Plan may not reflect either current market conditions or market conditions at the time of sale.**

Mary-Margaret Collier

Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: January 20, 2012