STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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November 12, 2015

The Honorable County Mayor
and Board of Commissioners of Shelby County
106 North Main Street, 11th Floor
Memphis, TN 38103

Dear Mayor Luttrell and Commissioners:

This letter and report including the plan of refunding (the "Plan") are to be published and placed on the County's website prior to the meeting of the Commission adopting the refunding bond resolution. The same letter and report for the Plan is to be provided to each Commissioner for review at the Public Meeting at which the refunding bond resolution will be adopted.

This letter acknowledges receipt of a request on November 10, 2015, from Shelby County (the "County") to review a plan of refunding (the "Plan") for the issuance of approximately $250,085,000 General Obligation Refunding Bonds, 2016 Series A (the "Refunding Bonds").

Pursuant to the provisions of Tennessee Code Annotated Title 9 Chapter 21, a plan must be submitted to our Office for review. The information presented in the Plan includes the assertions of the County and may not reflect either current market conditions or market conditions at the time of sale.

COUNTY'S PROPOSED REFUNDING OBJECTIVE

The County states the purpose of this refunding is to restructure the County's outstanding variable rate demand bonds by converting the debt to fixed interest rate bonds to eliminate variable interest rate, remarketing, and liquidity risks and to eliminate the need for a liquidity/credit facility. In connection with the refunding, the County intends to terminate the interest rate swap agreements associated with the County's outstanding variable rate demand bonds to reduce its exposure to third party credit worthiness and risks related to interest rate agreements.

PLAN OF REFUNDING

The County plans to issue $250,085,000 Refunding Bonds by negotiated sale priced at a premium of $43,344,964 to current refund:

- $118,885,000 General Obligation Variable Rate Demand Public Improvement and School Bonds, 2004 Series B (the "2004 Series B Bonds"); and

- $159,590,000 General Obligation Variable Rate Demand Public Improvement and School Bonds, 2006 Series B (the "2006 Series B Bonds").

Collectively, the 2004 Series B Bonds and 2006 Series B Bonds are the "Refunded Bonds." Total refunded principal is $278,475,000.

The County will also terminate the following interest rate swaps in connection with the refunding:

- 2004 Series B Bonds Interest Rate Swap Agreement
    - Variable-to-Fixed Interest Rate Swap (County paying 4.66% and receiving SIFMA*)
    - Termination payment of $10,906,639

- 2006 Series B Bonds Interest Rate Swap Agreement
    - Variable-to-Fixed Interest Rate Swap (County paying 3.503% until March 1, 2016, and 4.43% thereafter and receiving SIFMA*)
    - Termination payment of $42,026,793

*The Securities Industry and Financial Markets Association municipal swap index

BALLOON INDEBTEDNESS

Because the proposed debt to be issued is secured solely by a general obligation pledge and the County has some amount of long-term general obligation indebtedness outstanding that is rated AA+/Aa1 or better, the balloon indebtedness statute is not applicable to this debt issuance.

PRIVATE NEGOTIATED SALE APPROVAL

The approval of the Office of State and Local Finance is required when a County contemplates selling general obligation refunding bonds through a negotiated sale process. The County has requested approval to sell the Refunding Bonds through private negotiated sale. This letter constitutes approval to negotiate the sale of the Refunding Bonds, conditioned upon the requirement that the Bonds are sold with the debt service payment schedule having the same principal repayment schedule as presented in the plan or the principal repayment schedule is accelerated.

COMPLIANCE WITH THE COUNTY'S DEBT MANAGEMENT POLICY

The County provided a copy of its debt management policy, and within forty-five days (45) of issuance of the debt approved in this letter, is required to submit a Report on Debt Obligation that indicates that this debt complies with its debt policy. If the County amends its policy, please submit the amended policy to this office.

FINANCIAL PROFESSIONALS

The County has reported Public Financial Management, Inc. as its municipal advisor. Municipal advisors have a fiduciary responsibility to the County. Underwriters have no fiduciary responsibility to the County. They represent the interests of their firm and are not required to act in the County's best interest without regard to their own or other interests. The County prepared the Plan with the assistance of its municipal advisor.

MSRB Rule G-17

MSRB Rule G-17 requires underwriters and municipal advisors to deal fairly with the County in the conduct of its municipal securities or municipal advisory activities. The Securities and Exchange Commission approved MSRB Notice 2012-25 on the duties of underwriters to issuers of municipal securities on May 4, 2012. On August 2, 2012, this interpretive notice to MSRB Rule G-17 on fair dealing became part of federal securities law and underwriters are required to comply with its provisions.

These duties fall into three areas:

- statements and representations to issuers;
- disclosures to issuers; and
- financial aspects of underwriting transactions.

To learn more about the obligations of the County's underwriter (if applicable) and municipal advisor, please read the information posted on the MSRB website: www.msrb.org.

REPORT OF THE REVIEW OF A PLAN OF REFUNDING

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 the enclosed report do not address the 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.

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. Either the Chief Executive Officer or the Chief Financial Officer of the local government must submit such statement. 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 refunding reports 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.

Report on Debt Obligation

We are enclosing State Form CT-0253, Report on Debt Obligation. Pursuant to T.C.A. § 9-21-151, this form is to be completed and filed with the governing body of the County no later than forty-five (45) days after the issuance of this debt, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance by mail to the address on this letterhead or 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. A fillable PDF of Form CT-0253 can be found at http://www.comptroller.tn.gov/sl/pubdebt.asp.

If you should have any questions regarding this letter or the following report, please feel free to call us.

Sincerely,

Sandra Thompson

Sandra Thompson
Director of the Office of State & Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT
Mr. Richard J. Miller, Esq., Locke Lorde, LLP
Ms. Lisa Daniel, Public Financial Management, Inc.
Ms. Lauren Lowe, Public Financial Management, Inc.

Enclosures (2): Report of the Director of the Office of State & Local Finance
Report on Debt Obligation

REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE CONCERNING THE PROPOSED ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016 SERIES A SHELBY COUNTY, TENNESSEE

Shelby County (the "County") submitted a plan of refunding (the "Plan"), as required by T.C.A. § 9-21-903 regarding the issuance of approximately $250,085,000 General Obligation Refunding Bonds, 2016 Series A (the "Refunding Bonds").

The Plan was prepared with the assistance of the County's municipal advisor, Public Financial Management, Inc. An evaluation of the preparation, support, and underlying assumptions of the Plan has not been performed by this Office. This report provides no assurances of the reasonableness of the underlying assumptions. This report must be presented to the governing body prior to the adoption of a refunding bond resolution. The Refunding Bonds may be issued with a structure different than that of the Plan. The County provided a copy of its debt management policy.

BALLOON INDEBTEDNESS

Because the proposed debt to be issued is secured solely by a general obligation pledge and the County has some amount of long-term general obligation indebtedness outstanding that is rated AA+/Aa1 or better, the balloon indebtedness statute is not applicable to this debt issuance.

COUNTY'S PROPOSED REFUNDING OBJECTIVE

The County states the purpose of this refunding is to restructure the County's outstanding variable rate demand bonds by converting the debt to fixed interest rate bonds to eliminate variable interest rate, remarketing, and liquidity risks and to eliminate the need for a liquidity/credit facility. In connection with the refunding, the County intends to terminate the interest rate swap agreements associated with the County's outstanding variable rate demand bonds to reduce its exposure to third party credit worthiness and risks related to interest rate agreements.

PLAN OF REFUNDING

The County plans to issue $250,085,000 Refunding Bonds to current refund:

- $118,885,000 General Obligation Variable Rate Demand Public Improvement and School Bonds, 2004 Series B (the "2004 Series B Bonds"); and
- $159,590,000 General Obligation Variable Rate Demand Public Improvement and School Bonds, 2006 Series B (the "2006 Series B Bonds").

Collectively, the 2004 Series B Bonds and 2006 Series B Bonds are the "Refunded Bonds." Total refunded principal is $278,475,000.

The County will also terminate the following interest rate swaps in connection with the refunding:

- 2004 Series B Bonds Interest Rate Swap Agreement
    - Variable-to-Fixed Interest Rate Swap (County paying 4.66% and receiving SIFMA*)
    - Termination payment of $10,906,639
- 2006 Series B Bonds Interest Rate Swap Agreement
    - Variable-to-Fixed Interest Rate Swap (County paying 3.50% until March 1, 2016, and 4.43% thereafter and receiving SIFMA*)
    - Termination payment of $42,026,793

*The Securities Industry and Financial Markets Association municipal swap index

REFUNDING ANALYSIS

- The results of the refunding are based on the issuance of $250,085,000 Refunding by negotiated sale priced at a premium of $43,344,964.
- The County is contributing $40,000,000 to fund the transaction.
- The refunding eliminates $278,475,000 of the County's current $338,445,000 variable interest rate debt obligations, reducing the financial risks related to variable rate debt obligations.
- This refunding eliminates the risks associated with the interest rate agreements related to the Refunded Bonds.
- Total interest rate agreement termination costs associated with the refunding are $52,933,433.
- The final maturity of the Refunding Bonds does not extend beyond the final maturity of the Refunded Bonds.
- Estimated cost of issuance of the Refunding Bonds is $53,817,183 or $215.20 per $1,000 of par amount. See Table 1 for individual costs of issuance.

Table 1
Shelby County
Costs of Issuance
General Obligation Refunding Bonds, 2016 Series A

	Amount	Price per $1,000 Bond
Interest Rate Swap Temination Payment	$52,933,432.55	$ 211.66
Underwriter's Discount (TBD by negotiated sale)	249,750.00	1.00
Municipal Advisor (PFM & Com Cap)	105,000.00	0.42
Bond Counsel (Locke Lord, LLP)	150,000.00	0.60
Rating Agency Fees	308,500.00	1.23
SWAP Advisors	52,500.00	0.21
Other Costs	18,000.00	0.07
Total Cost of Issuance	$53,817,182.55	$ 215.20

The County has identified Public Financial Management, Inc. as its municipal advisor. Municipal advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to you. They represent the interests of their firm.

This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for the 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 outstanding until their respective dates of maturity. This report is based on information as presented in the Plan by the County. The assumptions included in the County's Plan may not reflect either current market conditions or market conditions at the time of sale.

If all of the Refunded Bonds are not refunded as a part of the Refunding Bonds, and the County wishes to refund them in a subsequent bond issue, then a new plan will have to be submitted to this Office for review.

Sandra Thompson

Sandra Thompson
Director of the Office of State and Local Finance
Date: November 12, 2015