TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

May 17, 2019

Mr. Forrest B. Artz, Chairman
Memphis and Shelby County Sports Authority
2491 Winchester Road, Suite 113
Memphis, TN 38116

Dear Mr. Artz:

This letter, report and plan of refunding (the "Plan") are to be published and posted on the website of the Memphis and Shelby County Sports Authority (the "Authority"). Please provide a copy of the letter, report, and Plan to each Board member for review at the public meeting for the adoption of the refunding bond authorizing resolution.

We acknowledge receipt on May 10, 2019, of a request from the Authority to review its plan for the issuance of:

- an estimated $65,605,000 Revenue Refunding Bonds, 2019 Series A [Memphis Arena Project] (the "Series 2019A Refunding Bonds"); and
- an estimated $67,655,000 Revenue Refunding Bonds, 2019 Series B [Memphis Arena Project] (the "Series 2019B Refunding Bonds").

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

Financial Professionals

The Plan was prepared by the Authority with the assistance of its municipal advisor. The Authority has indicated that PFM Financial Advisors LLC is its municipal advisor. Municipal advisors have a fiduciary responsibility to the Authority. Underwriters have no fiduciary responsibility to the Authority. They represent the interests of their firm and are not required to act in the Authority's best interest without regard to their own or other interests.

MSRB Rule G-17

MSRB Rule G-17 requires underwriters and municipal advisors to deal fairly with the Authority 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 Authority's underwriter (if applicable) and municipal advisor, please read the information posted on the MSRB website: www.msrb.org.

Compliance with the Authority's Debt Management Policy

The Authority provided a copy of its debt management policy and within forty-five (45) days 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. Please submit any amended policy to our office immediately upon its adoption.

Report of the Review of a Plan of Refunding

The enclosed report must be presented to the Authority's governing body for review prior to the adoption of a refunding bond authorizing resolution.

The enclosed report does not constitute approval or disapproval for the 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.

The enclosed report is effective for a period of ninety (90) days from the date of the report. If the refunding transaction has not been completed during this ninety (90) day period, a new plan of refunding, with new analysis and estimates based on market conditions at that time, must be submitted to this office. We will then issue a report on the new plan for the Authority's governing body to review prior to adopting a new refunding bond authorizing resolution.

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

The Authority's plan was prepared with the assistance of its municipal advisor, Public Financial Management, Inc. The assumptions of the plan are the assertions of the Authority. An evaluation of the preparation, support and underlying assumptions of the plan has not been performed by this office. The enclosed report provides no assurances of the reasonableness of the underlying assumptions.

Required Notification

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. However, if the actual results differ significantly from the information provided in the submitted Plan, the Authority's governing body and our office should be notified after the sale by either the Chief Executive Officer or the Chief Financial Officer of the Authority regarding these differences.

Notification will be necessary only if there is a change of ten percent (10%) or more in any of the following:

(1) An increase in the principal amount of the debt issued;
(2) An increase in costs of issuance; or
(3) A decrease in the cumulative savings or increase in the loss.

The notification must include an explanation for any significant differences and the justification for change of ten percent (10%) or more from the amounts in the plan. This notification should be presented to the Authority's governing body and our office with the required filing of the Report on Debt Obligation, Form CT-0253.

Municipal Securities Rulemaking Board (MSRB) – Required Disclosure

Local governments that issue municipal securities on or after February 27, 2019, should be aware that the Securities and Exchange Commission (SEC) adopted amendments to Rule 15c2-12 of the Securities Exchange Act that require reporting on material financial obligations that could impact an issuer's financial condition or security holder's rights. The amendments add two events to the list of events that must be included in any continuing disclosure agreement that is entered after the compliance date:

- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and

- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

To learn how to report these new disclosures please refer to the MSRB's Electronic Municipal Market Access EMMA® website (emma.msrb.org).

Report on Debt Obligation

We are enclosing a Report on Debt Obligation, Form CT-0253. Pursuant to T.C.A. § 9-21-151, this form is to be completed and filed with the governing body 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 slf.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 the form can be found on our website.

If you should have questions or need assistance regarding statutory debt issuance requirements, please refer to our online resources available at https://comptroller.tn.gov/office-functions/state-and-local-finance/local-government/debt.html, or feel free to contact your financial analyst, Ron Queen, at 615.401.7862 or Ron.Queen@cot.tn.gov.

You may also contact our office by mail at this address:

Comptroller of the Treasury
Office of State and Local Finance
Cordell Hull Building, 4th Floor
425 Fifth Avenue North
Nashville, TN 37243-3400

Please send it to the attention of your analyst at the Office of State and Local Finance.

Sincerely,

Sandra Thompson

Sandra Thompson
Director of the Office of State and Local Finance

cc: Mr. David Sturtevant, Contract Audit Review Manager, Local Government Audit
Ms. Lisa L. Daniel, PFM Financial Advisors LLC
Mr. Ricardo H. Callender, PFM Financial Advisors LLC
Ms. Pamela Z. Clary, ComCap Partners
Mr. Richard J. Miller, Esq., Locke Lorde LLP
Mr. Charles E. Carpenter, Esq. Carpenter Law PLLC

Enclosures: Report of the Director of the Office of State and Local Finance
Report on Debt Obligation

REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE CONCERNING THE PROPOSED ISSUANCE OF MEMPHIS AND SHELBY COUNTY SPORTS AUTHORITY REVENUE REFUNDING BONDS, 2019 SERIES A [MEMPHIS ARENA PROJECT] REVENUE REFUNDING BONDS, 2019 SERIES B [MEMPHIS ARENA PROJECT]

The Memphis and Shelby County Sports Authority (the "Authority") submitted a plan of refunding (the "Plan") regarding the issuance of:

- an estimated $65,605,000 Revenue Refunding Bonds, 2019 Series A [Memphis Arena Project] (the "Series 2019A Refunding Bonds"); and
- an estimated $67,655,000 Revenue Refunding Bonds, 2019 Series B [Memphis Arena Project] (the "Series 2019B Refunding Bonds").

TCA § 7-67-112 requires bonds of the Authority to be issued in accordance with the applicable provisions of Title 9 Chapter 21 of the Tennessee Code Annotated. The Office of State and Local Finance issues a report on the Plan prior to the issuance of revenue refunding bonds pursuant to TCA § 9-21-1003.

The Plan was prepared with the assistance of the Authority's municipal advisor. The assumptions of the plan are the assertions of the Authority. 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 Series 2019A and Series 2019B Refunding Bonds may be issued with a structure different from that of the Plan. The Authority provided a copy of its debt management policy.

FINANCIAL PROFESSIONALS

The Authority has indicated that PFM Financial Advisors LLC is 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.

SPECIAL REVENUE SECURITY PLEDGE

The Authority's bonds are special revenue debt with the following revenue sources associated with the FedEx Forum (the "Arena") pledged to the repayment of the debt:

- seat rental fees – pledged until the bonds are paid in full;
- State sales tax rebates related to certain taxes generated by the Memphis Grizzlies;
- car rental fees – pledged by the County until the bonds are paid in full;
- hotel/motel taxes – pledged by City and County; and
- Memphis Light, Gas and Water (MLGW) in-lieu-of-tax payments received from the City's Water Division of MLGW - pledged annually until the end of 2028.

The State is obligated by law to apportion and distribute to the Authority, for a period of thirty (30) years beginning October 9, 2001, an amount equal to all state and local sales taxes (except as described in the next sentence) derived from (i) the sale of admissions to NBA games at the Pyramid and the Arena (excluding premium seat sales at the Pyramid), (ii) the sale of food and drinks sold on the premises of the Pyramid for NBA games and for all events at the Arena, and (iii) the sale by Hoops within the County of authorized NBA franchise goods and products (collectively, the "Eligible Sales"). One-half of one percent (0.5%) of the State sales tax is dedicated to educational purposes and will not be distributed to the Authority to repay debt.

The City and County have an interlocal agreement whereby sufficient monies will be appropriated from non-ad valorem taxes to replenish draws from the debt service reserve fund in the event the revenues pledged to support certain senior lien bonds issued by the Authority (the "Senior Lien Bonds") prove to be insufficient to pay debt service on the Senior Lien Bonds in any bond year.

CHRONOLOGY

We have provided the following chronology to assist in understanding the timeline, structure, purpose, and costs related to the 2002 Revenue Bonds of the Authority and subsequent refundings. The Authority pays transaction costs each time it issues bonds. It should also be noted that complex debt transactions including balloon indebtedness structures, variable rate demand bond issues, and interest rate swaps have been used by the Authority. Complex debt transactions increase risks and costs and require a higher level of oversight.

2002 – Original Issuance

- The Authority issued $113,325,000 Revenue Bonds, Series 2002A [Memphis Arena Project] (the "Series 2002A Bonds") and $88,965,000 Revenue Bonds, Series 2002B [Memphis Arena Project] (the "Series 2002B Bonds") under the terms of a 26-year and 27-year fixed interest rate, respectively.

- The proceeds financed a portion of the costs of constructing, acquiring, erecting, extending, improving, equipping, renovating and repairing an arena facility and the costs of acquiring a site or sites necessary and convenient for the Arena and demolishing structures on the Arena site.

- The Series 2002A Bonds and Series 2002B Bonds were structured as balloon indebtedness with a final maturity for the Series 2002A Bonds of November 1, 2028, and a final maturity for the Series 2002B Bonds of November 1, 2029.

- The Series 2002A Bonds and Series 2002B Bonds maturing November 1, 2013, and later were subject to call by the Authority on or after November 1, 2012.

- In fiscal year 2004 the Authority entered into an interest rate swap agreement in connection with its Series 2002 A and B fixed interest rate bonds. The Authority received $5,200,000 at closing and four additional annual payments of $200,000. Pursuant to the provisions of the swap, the Authority received a variable rate payment based on the London Interbank

Offering Rate (LIBOR) index based on an "Enhanced LIBOR" payment formula and made a variable rate payment based on the SIFMA Mutual Swap Index. The swap was terminated by the Authority on February 27, 2015, and the Authority received a termination payment of $380,000 from the counterparty.

2007 – First Refunding (Advanced Refunding)

- The Authority issued $69,150,000 Variable Rate Demand Revenue Refunding Bonds, Series 2007A [Memphis Arena Project] (the "Series 2007A Bonds") in conjunction with the issuance of its $28,935,000 fixed interest rate Revenue Refunding Bonds, Series 2007C [Memphis Arena Project]. The proceeds of which were used to advance refund $98,085,000 of the Series 2002A Bonds maturing November 1, 2013, through November 1, 2028.

- Also, the Authority issued $60,725,000 Variable Rate Demand Revenue Refunding Bonds, Series 2007 B [Memphis Arena Project] (the "Series 2007B Bonds") in conjunction with the issuance of its $28,525,000 fixed interest rate Revenue Refunding Bonds, Series 2007D [Memphis Arena Project]. The proceeds of which were used to advance refund $82,595,000 of the Series 2002B Bonds maturing November 1, 2013, through November 1, 2029.

- The Series 2007A Bonds and Series 2007B Bonds (the "Series 2007 Bonds") had a balloon debt structure with principal payments beginning on November 1, 2020. The Series 2007 Bonds have the same final maturities of November 1, 2028, and November 1, 2029, as the Series 2002A and 2002B Bonds, respectively.

- The Authority entered variable-to-fixed interest rate swaps at the time they issued the Series 2007 Bonds.

- Due to the variable rate demand obligation (VRDO) structure, the Series 2007 Bonds were callable any time after issuance.

- With the Series 2007 Bonds, the Authority was exposed to risks associated with VRDOs including:

    - interest rate risk,
    - tax risk,
    - roll-over risk,
    - remarketing risk, and
    - liquidity risk.

- The Authority's interest rate swaps provided additional risks as well:

    - basis risk,
    - tax risk,
    - counterparty risk,

- yield curve risk (Constant Maturity Swaps),
- termination risk,
- collateral posting risk,
- loss of flexibility limiting future financing options, and
- management complexity.

- Because of the complexity of the structure of the debt for the Series 2007 Bonds, a high level of monitoring and management was required.

2009 – Second Refunding (Current Refunding)

- The Authority issued the $69,150,000 Revenue Refunding Bonds, Series 2009A [Memphis Arena Project] (the "Series 2009A Bonds") and Revenue Refunding Bonds, Series 2009B [Memphis Arena Project] (the "Series 2009B Bonds") with a fixed interest rate and 19-year and 20-year maturities, respectively.

- The proceeds were used to current refund the Series 2007 Bonds and to terminate the associated interest rate swaps.

- The Series 2009A Bonds and Series 2009B Bonds (collectively the "Series 2009 Bonds") were issued with a balloon indebtedness structure similar to the Series 2007 Bonds. The Series 2009 Bonds have the same final maturities of November 1, 2028, and November 1, 2029, respectively as the Series 2007 Bonds.

- The Series 2009 Bonds were callable by the Authority prior to maturity on or after November 1, 2019.

- The Authority used $7,975,200 in bond proceeds to terminate the interest rate swaps associated with the Series 2007 Bonds.

2019 – Third Refunding (2nd Current Refunding)

The Authority intends to refund the Series 2002 Bonds a third time with the proposed issuance of the Series 2019A and Series 2019B Refunding Bonds (the "Series 2019 Refunding Bonds") at the call date of November 1, 2019.

Cumulative Costs of Issuance

With the issuance of the proposed Series 2019 Refunding Bonds, the Authority will have incurred the following cumulative costs. This does not include the interest costs and swap payments for the period from the issuance of the Senior Lien Series 2002 Revenue Bonds through the proposed final maturity of the proposed Series 2019 Refunding Bonds.

Table 1
Total Costs * for the Series 2002 Revenue Bonds and Related Refundings

Cost	Series 2002 Revenue Bonds	Series 2007 Refunding Bonds	Series 2009 Refunding Bonds	Series 2019 Refunding Bonds	Total Costs of Issuance
Underwriter's Discount	$ 1,212,813	$ 314,281	$ 723,620	$ -	$ 2,250,714
Other Costs of Issuance	1,497,369	780,000	741,246	432,750	3,451,365
Bond Insurance	999,434	720,000	-	-	1,719,434
Swap Termination Fee	-	-	7,975,200	-	7,975,200
	$ 3,709,616	$ 1,814,281	$ 9,440,066	$ 432,750	$ 15,396,713

*Excludes interest costs and swap payments

BALLOON INDEBTEDNESS

The structures of the Series 2019A and Series 2019B Revenue Refunding Bonds presented in the Plan are not balloon indebtedness as defined in T.C.A. § 9-21-134. If the structures of the bonds are revised, the Authority should determine if the new structures are compliant with that statute. If the bond structures constitute balloon indebtedness, the Authority must submit a Plan of Balloon Indebtedness to the Director of the Office of State and Local Finance for approval prior to the Authority adopting the resolution authorizing the issuance of the debt.

AUTHORITY'S PROPOSED REFUNDING OBJECTIVE

The Authority's stated refunding objective is "to refinance the Refunded Bonds in order to achieve certain debt service savings." In addition, the following was stated: "The Authority believes the proposed plan of refunding is in the best interest of its stakeholders (the City, County and its constituents). The proposed refunding will reduce annual debt service and thus mitigate a portion of the risk of the City and County to fund any revenue shortfalls."

PLAN OF REFUNDING

The Authority intends to sell by a competitive RFP process using a private placement bank loan:

- approximately $65,605,000 Series 2019A Refunding Bonds with the contribution from the Authority's funds of $5,128,005 to current refund $69,150,000 in outstanding Series 2009A Bonds: and
- approximately $67,655,000 Series 2019B Refunding Bonds priced at par with the contribution from the Authority's funds of $9,823,103 to current refund $75,700,000 in outstanding Series 2009B Bonds.

The Series 2019A and Series 2019B Refunding Bonds may also be sold through a traditional negotiated sale process.

Refunding Analysis

Series 2019A Refunding Bonds

- Results of the refunding assume that the Authority intends to sell $65,605,000 Series 2019A Refunding Bonds by private placement priced at par.
- The estimated net present value benefit is $7,023,475 or 10.16% of the refunded principal amount of $69,150,000 achieved by lowering the average coupon from 5.21% for the Series 2009A Bonds to 3.00% for the Series 2019A Refunding Bonds.
- The final maturity of the Series 2019A Refunding Bonds does not extend beyond the final maturity of the Series 2009A Bonds.
- Estimated cost of issuance for the Series 2019A Refunding Bonds is $213,046 or $3.25 per $1,000 of the par amount. See Table 2 for individual costs of issuance.

Series 2019B Refunding Bonds

- Results of the refunding assume that the Authority intends to sell $67,655,000 Series 2019B Refunding Bonds by private placement priced at par.
- The estimated net present value benefit is $9,530,808 or 12.59% of the refunded principal amount of $75,700,000 achieved by lowering the average coupon from 5.32% for the Series 2009B Bonds to 3.00% for the Series 2019B Refunding Bonds.
- The final maturity of the Series 2019B Refunding Bonds does not extend beyond the final maturity of the Series 2009B Bonds.
- Estimated cost of issuance for the Series 2019B Refunding Bonds is $219,704 or $3.25 per $1,000 of the par amount. See Table 2 for individual costs of issuance.

Table 2
Costs of Issuance
Series 2019A&B Refunding Bonds

	Series 2019A		Series 2019B	
	Amount	Price per $1,000 Bond	Amount	Price per $1,000 Bond
Municipal Advisor (PFM & ComCap Partners)	$ 86,153.95	$ 1.31	$ 88,846.05	$ 1.31
Bond Counsel (Locke Lord)	82,584.71	1.26	85,165.29	1.26
Underwriter's Counsel (Carpenter Law)	34,461.58	0.53	35,538.42	0.53
Miscellaneous	9,846.16	0.15	10,153.84	0.15
Total Cost of Issuance	$ 213,046.40	$ 3.25	$ 219,703.60	$ 3.25

This report of the Office of State and Local Finance does not constitute approval or disapproval by our 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 Authority. The assumptions included in the Authority's Plan may not reflect either current market conditions or market conditions at the time of sale.

If all the Series 2009A Bonds and Series 2009B Bonds are not refunded as a part of the Series 2019A and Series 2019B Refunding Bonds, and the Authority wishes to refund them in a subsequent bond issue, then a new plan will have to be submitted to this office for review.

This report is effective for a period of ninety (90) days from the date of the report. If the refunding transaction has not been completed during this ninety (90) day period, a new plan of refunding, with new analysis and estimates based on market conditions at that time, must be submitted to this office.

Sandra Thompson

Sandra Thompson
Director of the Office of State and Local Finance
Date: May 17, 2019