



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
OFFICE OF STATE AND LOCAL FINANCE  
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7872  
FAX (615) 741-5986

December 6, 2016

Honorable Andy Berke, Mayor  
and Honorable City Council  
City of Chattanooga  
101 East 11<sup>th</sup> Street  
Chattanooga, TN 37402

Dear Mayor Berke and Councilmembers:

This letter and report, and the plan of refunding (the "Plan"), are to be posted on the website of the City of Chattanooga (the "City"). Please make these documents available to the public and provide a copy of this report to each member of the Governing Body and present it at the next meeting.

This letter acknowledges receipt on December 2, 2016, of the City's request to review its Plan for the issuance of an amount not to exceed \$16,480,000 General Obligation Refunding Bonds, Series 2017B, ("Refunding Bonds") at a premium to current refund \$17,750,000 General Obligation Refunding Bonds, Series 2007A ("Refunded 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 City and may not reflect either current market conditions or market conditions at the time of sale.

### **City's Proposed Refunding Objective**

The City indicated its purpose for the refunding is for present value debt service savings.

### **Balloon Indebtedness**

The proposed structure of the Refunding Bonds presented in the Plan does appear to be balloon indebtedness. As of the date of this letter, however, the balloon indebtedness statute does not apply to this proposed refunding because the proposed debt issue is secured solely by a general obligation pledge and the City has some amount of long-term general obligation indebtedness outstanding that is rated AA+/Aa1 or better. If the structure is revised, the City should determine if the new structure complies with the requirements of T.C.A. § 9-21-134 concerning balloon indebtedness.

## **Compliance with the City's Debt Management Policy**

The City 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. If the City amends its policy, please submit the amended policy to this office.

## **Financial Professionals**

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

## **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 City 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. 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 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 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 of the City 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 email to [StateandLocalFinance.PublicDebtForm@cot.tn.gov](mailto:StateandLocalFinance.PublicDebtForm@cot.tn.gov) or by mail to the address on this letterhead. No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation. For your convenience, a fillable PDF of Form CT-0253 is available at <http://www.comptroller.tn.gov/sl/pubdebt.asp>.

If you should have any questions regarding this information, or we may be of further assistance, please feel free to call.

Sincerely,



Sandra Thompson  
Director of the Office of State & Local Finance

cc: Mr. Jim Arnette, Director of Local Government Audit, COT  
Ms. Daisy Madison, City Finance Officer, City of Chattanooga  
Ms. Lauren Lowe, PFM Financial Advisors LLC

Enclosures: 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 BY  
THE CITY OF CHATTANOOGA, TENNESSEE  
OF  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017B**

The City of Chattanooga (the “City”) submitted a plan of refunding (the “Plan”), as required by T.C.A. § 9-21-903 regarding an issuance of an amount not to exceed \$16,480,000 General Obligation Refunding Bonds, Series 2017B, (“Refunding Bonds”) at a premium, to current refund \$17,750,000 General Obligation Refunding Bonds, Series 2007A (“Refunded Bonds”).

This report must be presented to the governing body prior to the adoption of a refunding bond resolution. An evaluation of the preparation, support, and underlying assumptions of the Plan has not been performed by this Office. This letter and report provide no assurances of the reasonableness of the underlying assumptions. The Refunding Bonds may be issued with a structure different to that of the Plan. The City provided a copy of its debt management policy.

**Balloon Indebtedness**

The proposed structure of the Refunding Bonds presented in the Plan does appear to be balloon indebtedness. As of the date of this letter, however, the balloon indebtedness statute does not apply to this proposed refunding because the proposed debt issue is secured solely by a general obligation pledge and the City has some amount of long-term general obligation indebtedness outstanding that is rated AA+/Aa1 or better. If the structure is revised, the City should determine if the new structure complies with the requirements of T.C.A. § 9-21-134 concerning balloon indebtedness.

**City’s Proposed Refunding Objective**

The City indicated its purpose for the refunding is for present value debt service savings.

**Refunding Analysis**

- The results of the refunding are based on the assumption that \$16,480,000 Refunding Bonds will be sold by competitive sale and priced at a premium of \$1,894,011.
- The net present value savings are projected to be \$2,586,686, or 14.57% of the refunded principal of \$17,750,000.
- 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 \$206,179 or \$12.51 per \$1,000 of the par amount. See Table 1 for individual costs of issuance.

Table 1  
Costs of Issuance of Refunding Bonds

	Amount	Price per \$1,000 bond
Underwriter's Discount (TBD by competitive sale)	\$ 82,400.00	\$ 5.00
Bond Counsel	48,786.26	2.96
Municipal Advisor (PFM Financial Advisors LLC)	32,524.18	1.97
Rating Agency Fees	36,427.08	2.21
Other Costs	6,041.24	0.37
Total Cost of Issuance	<u>\$ 206,178.76</u>	<u>\$ 12.51</u>

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

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 City. The assumptions included in the City'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 City 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  
Director of the Office of State and Local Finance  
Date: December 6, 2016