



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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February 10, 2015

The Honorable Mayor and City Council
City of Memphis
125 North Main RM 368
Memphis, TN 38103-2017

Dear Mayor Wharton and Councilmembers:

The City of Memphis (the "City"), presented a plan of balloon indebtedness (the "Plan") on February 4, 2015, to issue a maximum \$235,000,000 General Improvement Refunding Bonds, Series 2015 (the "Bonds") as balloon indebtedness.

Balloon Indebtedness

The City stated in the Plan that in 2010 it restructured its then existing debt service to a balloon indebtedness structure to permit it to pay the Memphis City Schools approximately \$60,000,000 a year. This restructuring moved principal payments to future years producing a "flat" debt structure. This flat debt structure creates a "debt service bubble" when additional debt is added by the City's customary annual borrowing of \$65,000,000 to \$70,000,000 a year for capital spending "that is absolutely necessary for the day-to-day operations of our City to meet the basic needs of our citizens." This debt service bubble requires increased debt service payments. In Addition, state statutes require the City to pay 100% of its Actuarially Defined Contribution (ADC) for its pension plan by fiscal year 2020.

The City further stated:

The proposed refunding of our current debt service alone will decrease our debt service during these critical years and help Memphis meet the challenge posed by increasing pension ADC costs...

Without this balloon indebtedness plan, Memphis will be facing a \$30 million increase in pension ADC and a \$30 million increase in debt service by the years 2020-22. It is clearly in the best interest of the City of Memphis to restructure its current debt so as to mitigate this growing annual payment pressure.

The City intends to restructure existing debt in a balloon indebtedness structure by advance refunding approximately \$134,010,000 in outstanding debt. Additionally, the City is converting \$75,000,000 of bond anticipation notes to long-term bonds with principal payments delayed until the bonds' 10th year.

Letter to the City of Memphis

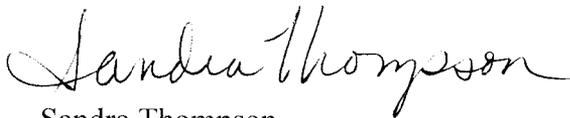
This debt is restructured to provide budgetary relief primarily in fiscal years 2020 through 2022 to allow it to meet its increased pension ADC by moving principal payments for the \$134,010,000 in outstanding debt to fiscal years 2023 through 2026 and delay principal payments for the notes converted to bonds until fiscal year 2025. According to the City, after the issuance of the Bonds and if no other debt is issued, its annual debt service requirements decrease to below \$40,000,000 a year after fiscal year 2027.

Approval

The comptroller of the treasury or the comptroller's designee shall evaluate each plan of balloon indebtedness based on the plan's particular circumstances and shall approve the plan only if a determination is made that the repayment structure is in the public's interest. Based on the review of the Plan in accordance with statute, the Plan is approved.

The City of Memphis is taking steps to manage the financial concerns created by past decisions. The City should consider its future needs as it manages these concerns. Future progress requires the management of both its long-term obligations (debt service and other long-term liabilities such as pensions) and operations within its revenue stream.

Sincerely,

A handwritten signature in cursive script that reads "Sandra Thompson".

Sandra Thompson
Director of State & Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT