STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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March 6, 2012

Honorable A C Wharton, Jr.
Mayor of the City of Memphis
125 North Main, Room 368
Memphis, TN 38013-2017

Dear Mayor Wharton;

This letter acknowledges receipt from the City of Memphis (the "City") of a revised request letter dated February 27, 2012, on February 28, 2012, to review a plan of refunding dated February 18, 2012 (the "Plan"), for an amount not to exceed $180,000,000 General Improvement and Refunding Bonds, Series 2012 (the "2012 Bonds") to (1) advance refund not more than $73,670,000 General Obligation Bonds, Series 2004, and not more than $68,310,000 General Obligation Bonds, Series 2006A (jointly the "Outstanding Bonds"); (2) provide financing for the construction, acquisition, renovation and equipping of various projects for the City; and (3) pay costs of issuance of the 2012 Bonds. The City proposes to issue not to exceed $165,000,000 of the 2012 Bonds for the advance refunding and not to exceed $15,000,000 of the 2012 Bonds to finance the projects.

A request letter dated February 15, 2012 for a review of a plan dated February 8, 2012, was originally submitted by the City on February 17, 2012. The City subsequently submitted revisions on February 28, 2012 constituting the Plan.

Pursuant to the provisions of Title 9, Chapter 21, Tennessee Code Annotated, a plan of refunding 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 its full faith and credit and unlimited taxing power. The information presented in the plan of refunding includes the assertions of the local government and may not reflect either current market conditions or market conditions at the time of sale.

City's Proposed Refunding Objective

The City proposes the advance refunding to achieve debt service savings and to refine its overall debt structure. Based on the City's current projections, the City anticipates the issuance of $114,230,000 of 2012 Bonds by negotiated sale priced at a premium to advance refund $120,900,000 of the Outstanding Bonds. The advanced refunding will generate Net Present Value ("NPV") savings of $5,138,495 or 4.25% NPV savings as a percentage of the refunded bonds. According the City's Plan, the overall debt structure is being refined to increase debt service capacity in fiscal years 2016 to 2019 ("where capacity is somewhat limited") and will decrease debt service capacity in fiscal years 2022 through 2024. Table 1 illustrates the impact of the anticipated refunding on the City's debt service payments in fiscal years 2012 through 2024.

Table 1
Post-Refunding Change in Debt Service

FY	(Increase) or Reduction in Debt Service Payments	
2012	$	2,434,248.61
2013		172,375.00
2014		172,375.00
2015		172,375.00
2016		6,680,500.00
2017		5,190,000.00
2018		5,193,750.00
2019		5,521,625.00
2020		(298,250.00)
2021		289,000.00
2022		(4,150,137.50)
2023		(9,970,775.00)
2024		(10,855,825.00)
	$	551,261.11

Source: Plan page 14 Savings Schedule

The increase in debt service capacity for fiscal years 2016 through 2019 of $22,585,875 is achieved by shifting those payments to fiscal years 2022 through 2024.

The City also proposed advance refunding all of the Outstanding Bonds to achieve debt service savings and to restructure a portion of its outstanding debt. The Plan estimates, based on current market conditions, the advance refunding provides NPV savings of $4,302,724, or 3.03% NPV savings as a percentage of the refunded bonds. Under this refunding, the City's debt is being restructured to provide debt relief in fiscal years 2016 to 2021 and in 2026. Table 2 illustrates the impact of the refunding on the City's debt service payments in fiscal years 2012 through 2026.

Table 2
Post-Refunding Change in Debt Service

FY	(Increase) or Reduction in Debt Service Payments
2012	$ 2,801,970
2013	82,719
2014	82,719
2015	82,719
2016	6,590,844
2017	7,270,344
2018	7,275,594
2019	7,604,469
2020	1,779,844
2021	2,371,594
2022	(2,069,544)
2023	(7,883,681)
2024	(32,787,387)
2025	(3,226,031)
2026	7,495,453
	$ (2,528,376)

Source: Debt Refunding Component Cash Flows Slide

The total debt service reduction for fiscal years 2016 through 2021 is $32,892,689 which appears to be primarily shifted to fiscal year 2024. There is a $7,495,453 decrease in debt service in fiscal year 2026. It achieves the goal of debt relief in fiscal years 2016 through 2021 and 2026 at the cost of shifting those payments to fiscal years 2022 through 2025 with an increase in total debt service payments of $2,528,374.

According to a statement made by the City, it is using this refunding and the new money portion of the 2012 Bonds to begin implementing its strategy to change the life of its general obligation debt portfolio from 25 to 30 years. The City is currently paying 72% of outstanding debt principal in the next 10 years. The City's intends over time to decrease it debt payback rate in the first 10 years of its overall general obligation debt portfolio to 55% of outstanding principal in accordance with its debt management policy and to eventually create a level debt service payment pattern over a 30 year period. Future debt will be structured to wrap around current debt service payments to meet these objectives. The City's long term intent is to better match its debt service payments and capacity to issue future debt to meet its projected revenue streams.

Compliance with the City's Debt Management Policy

The City adopted a Debt Management Policy (the "Policy") on February 19, 2002 and amended it on November 4, 2003, and December 6, 2011. The 2011 amendment was to revise the City's Policy to meet the requirements of the State Funding Board's Statement on Debt Management.

The City's stated purpose for the refunding is achieve debt service savings and to refine its overall debt structure.

The proposed anticipated refunding appears to meet the criteria set by the City in its policy for advance refunding for net present value savings equaling or exceeding three and one half percent (3.5%) or $1,000,000 based on the estimated savings of $5,138,495 or 4.25% NPV savings as a percentage of the anticipated amount of $120,900,000 the Outstanding Bonds. The City has determined that restructuring the principal associated with the Outstanding Bonds to increase debt service capacity in fiscal years 2016 through 2019 by decreasing excess capacity in fiscal years 2022 through 2024 is in the best interest of the City; thus, meeting its criteria for a restructuring according to the plan revision letter dated February 27, 2012. The maximum advance refunding case with net present value savings of $4,302,724 meets the criterion of $1,000,000 in net present value savings.

Based on a review of the City's debt management policy, emails from the City describing how the proposed refunding portion of the 2012 Bonds complies with the policy, and the Plan, the term, structure, method of sale, etc., for the refunding portion of the 2012 Bonds appears to meet the policy criteria.

The City stated that affordability criterion it is currently using is general obligation debt is no more than 12% of the City's assessed value. General obligation debt represents 10.72% of the City's 2010 total assessed value of $11,754,592,080 after the 2012 Bonds are issued. This is within the City's affordability criterion.

Method of Sale

Title 9, Chapter 21, Tennessee Code Annotated, authorizes any local government to sell general obligation refunding bonds either at a competitive public sale or at a private negotiated sale, as determined by the governing body. The approval of the Office of State and Local Finance is required when a municipality desires to sell refunding general obligation debt through a negotiated sale process. Tennessee Code Annotated Section 9-21-132 provides that approval from this office is not required for certain local governments, including the City of Memphis, for bonds sold at negotiated sale. Pursuant to the request from Mr. McElrath on behalf of the City, the intention is to sell 2012 Bonds by negotiation.

Report of the Review of a Plan of Refunding

Enclosed is the report of the review of this plan of refunding required by Tennessee Code Annotated Section 9-21-903 for distribution to the City Council.

This report and the submitted plan of refunding are to be placed on the City's website. The same report is to be provided to each Council Member and reviewed at the Public Meeting at which the proposed refunding bond resolution will be presented.

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.

Public Debt Entity Report

Enclosed is a revised form CT-0253 - Report on Debt Obligation. The Form CT-0253 must be filed 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 the Director of the Office of State and Local Finance at StateandLocalFinance.PublicDebtForm@cot.tn.gov or the mailing address on this letter. 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. Dennis Dycus, Director of Municipal Audit, COT
Mr. Roland McElrath, Director of Finance & Administration, City of Memphis
Mr. Andre Walker, Deputy Finance Director, City of Memphis
Mr. Wayne Placide, Managing Director, First Southwest
Ms. Pamela Clary, Community Capital

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

REPORT OF THE DIRECTOR OF STATE AND LOCAL FINANCE CONCERNING THE PROPOSED ISSUANCE OF GENERAL OBLIGATION IMPROVEMENT AND REFUNDING BONDS, SERIES 2012 CITY OF MEMPHIS, TENNESSEE

The City of Memphis (the "City") submitted a plan of refunding (the "Plan"), as required by Tennessee Code Annotated Section 9-21-903 regarding the proposed issuance of an amount not to exceed $180,000,000 in General Improvement and Refunding Bonds, Series 2012 (the "2012 Bonds"). The 2012 Bonds will provide up to $15,000,000 to finance various projects and improvements of the City (see p. 1 of the Request Letter of February 15, 2012). The 2012 Bonds are also intended to advance refund:

- up to $73,670,000 General Obligation Bonds, Series 2004 (2004 Bonds), and
- up to $68,310,000 General Obligation Bonds, Series 2006A (see page 25 of the Plan of February 8, 2012) (jointly the "Outstanding Bonds").

The Plan was prepared with the assistance of the City's Financial Advisor, First Southwest. The Plan anticipates the negotiated sale of $114,230,000 of 2012 Bonds priced at a premium of $26,197,466 to advance refund $120,900,000 of the Outstanding Bonds (see pages 1 and 9 of the Plan Revision of February 18, 2012). The City anticipates selling $11,655,000 of 2012 Bonds at a projected premium of $2,437,787 to fund $14,000,000 in projects and improvements.

The City states that the 2012 Bonds as described in the Plan meet the City's debt management policy (the "Policy") criteria for an advanced refunding, refunding for debt service savings, term of refunding, debt service structure and for negotiated sale.

Refunding Analysis

The Plan additionally assumes for the anticipated refunding that:

- The refunding will produce estimated total savings of $551,261 and estimated net present value ("NPV") savings of $5,138,495 or 4.25% of the proposed $120,900,000 refunded principal (see pages 14 and 15 of the Plan Revision of February 18, 2012).
- Debt service capacity will increase in fiscal years 2016 to 2019 and will decrease in fiscal years 2022 through 2024 (see page 1 of the Plan Revision Letter of February 27, 2012).
- The average life of the refunding portion of the 2012 Bonds will be 9.63 years versus 7.90 years for the Outstanding Bonds (see page 15 of the Plan Revision of February 18, 2012).
- The final maturity will be extended from October 1, 2023 to May 1, 2024 (see pages 3, and 16 of the Plan Revision of February 18, 2012).
- Total estimated cost of issuance is $894,534 or $7.83 per $1,000 of par amount for the refunding portion of the 2012 Bonds. Included in the cost of issuance is an estimated Underwriter's Discount of $524,976 (see page 1, 26, and 27 of the Plan Revision of February 18, 2012).

The Plan results for the anticipated refunding appear to be:

- Total savings will be achieved by:
  - Applying the bond premium of $26,197,465 to the refunding escrow.
  - Generating NPV Savings of $5,138,495.
- Debt service of $22,585,875 for fiscal years 2016 to 2019 will be shifted to fiscal years 2022 through 2024 increasing debt service in those years by $24,976,738.

The Plan assumes for the advance refunding of all of the Outstanding Bonds that:

- $134,300,000 of 2012 Bonds will be sold at a premium estimated to be $30,580,699 (see slide 4 of the Plan of February 8, 2012).
- The debt service payments will increase by $2,528,376.
- The estimated net present value savings of $4,302,724 or 3.03% of the proposed $141,980,000 refunded principal (see page 15 of the Plan of February 8, 2012) results from shifting principal payments from fiscal years 2012 through 2019 to fiscal years 2022 through 2024.
- The final maturity will be extended from October 1, 2023 to May 1, 2024 (see pages 12, and 25 of the Plan of February 8, 2012).
- Total estimated cost of issuance is $980,865 or $7.30 per $1,000 of par amount for the refunding portion of the 2012 Bonds, including an estimated Underwriter's Discount of $606,213 (see slide 8 and page 10 of the Plan of February 8, 2012).

According to a statement made by the City, it is using the 2012 Bonds to begin implementing its strategy to change the life of its general obligation debt portfolio from 25 to 30 years. The City is currently paying 72% of outstanding debt principal in the next 10 years. The City's intends over time to decrease its debt repayment rate in the first 10 years of its overall general obligation debt portfolio to 55% of outstanding principal in accordance with its Policy and to eventually create a level debt service payment pattern over a 30 year period rather than the current 25 year period. Future debt will be structured to wrap around current debt service payments to meet these objectives. We note that the principal repayment of the new money portion of the 2012 Bonds is deferred until 2025. The City's long term intent is to match annual debt service payments to its projected revenue stream and to achieve a 30 year debt amortization schedule.

This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for 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 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.

Mary-Margaret Collier

Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: March 6, 2012