

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-9034
(615) 741-2501

Justin P. Wilson
Comptroller

May 20, 2013

Honorable A. C. Wharton, Mayor
Members of City Council
City of Memphis
125 North Main RM 368
Memphis, TN 38103-2017

Re: Review of the Refunding Plan for the Proposed General Improvement Refunding Bonds, Series 2013

Dear Mayor Wharton and Memphis City Council Members:

This letter acknowledges receipt of a request on April 9, 2013, to review a plan of refunding (the "Plan") for the proposed issuance by the City of Memphis (the "City") of an amount not to exceed \$135,000,000 General Improvement Refunding Bonds, Series 2013 (the "Series 2013 Refunding Bonds").

This Office became aware of issues related to interfund loans and negative fund balances in January of 2013. This Office sent a letter to the City dated February 19, 2013 expressing concern with the negative fund balance in the New Memphis Arena fund. In response to the City's request for review of the Plan, by letter dated April 19, 2013, this Office informed you that a report of the review could not be issued until compliance with Tennessee Code Annotated Title 9, Chapter 21 (the "Act") has been achieved. By mutual agreement we granted you a 30 day extension to respond. The Mayor and representatives of the City met in Nashville with me and representatives of my staff on May 6, 2013 to discuss proposed actions to correct the non-compliance. Non-compliance concerns identified for correction are listed below. The City should conduct a risk assessment to determine if there are other internal control issues which may uncover additional instances of non-compliance.

Based on the proposed actions presented to us by the City on May 6th and subsequently submitted documents and assuming the Council adopts the proposed resolutions and takes action as outlined below, the City will be considered to have submitted all information required of it and to have fully responded to the Comptroller's notification of non-compliance. The Grant Anticipation Notes as attached to this letter are hereby approved. Upon the Council and the City taking the actions set forth below, the City will then be able to enter into a "finance transaction" as defined in Tennessee Code Annotated Section 9-21-151. Included in such definition is the issuance of general obligation debt, including refunding bonds.

As a consequence, and based upon the assumption that the Council and the City will take the actions set forth below, we are now able to release the report of this Office concerning the City's Plan. Note, if for any reason the Council and the City fail to take the actions set forth below on or before May 28, 2013, then the enclosed Report shall be and hereby is rescinded and the City will be placed on the list of public entities failing to respond pursuant to Section 9-21-151 and will be deemed to be in non-conformance of Section 9-21-406. At

that time the City will be legally unable to issue the Series 2013 Refunding Bonds or enter into any other finance transaction.

NON-COMPLIANCE ISSUES

- Deficit fund balances (New Memphis Arena, Fleet Management, and Unemployment Compensation)
- Various interfund loans not in compliance with Section 9-21-408 (authorization, approval and documentation, including appropriate actions by City Council)
- Failure to file Reports on Debt Obligation/CT-0253 for interfund loans
- Failure to maintain a balanced budget on a cash basis for each fund
- Failure of Debt Management Policy to require specific legislative authorization for principal deferral

CORRECTIVE ACTIONS

- Proper Issuance of Grant Anticipation Notes (Resolutions and Note Forms attached as Attachment A)
- Amendment of Debt Management Policy
- Amendment of Internal Control Policy and Implementation of Related Procedures
- Amendment of Fiscal Year 2013 Budget
- Accounting entries and fund transfers
- Filing Reports on Debt Obligation/CT-0253 for Grant Anticipation Notes and for the retired New Memphis Arena Capital Outlay Note

PLAN OF REFUNDING

Pursuant to the provisions of the Act, 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 the full faith and credit and unlimited taxing power of the local government. The information in your Plan includes representations by the City that may not reflect either the City's current or future financial condition or market conditions currently or at the time of sale. This review is based on the City's representations which we have not verified.

The City intends to sell by negotiation \$112,470,000 Series 2013 Refunding Bonds priced at an estimated premium of \$22,983,026 in the capital markets to advance refund:

- \$18,385,000 of the General Improvement Bonds, Series 2004 (the "Series 2004 Bonds");
- \$47,775,000 of the General Improvement Bonds, Series 2006A (the "Series 2006A Bonds"); and
- \$52,825,000 of the General Improvement Bonds, Series 2007A (the "Series 2007A Bonds").

Collectively, these are the "Refunded Bonds." The total amount of refunded principal is \$118,985,000. The Savings Schedule presented in the Plan's Bond Cash Flows and Statistical Summary indicates the proposed refunding will generate net present value savings of \$3,430,955 or 2.88% of the refunded principal amount of bonds totaling \$118,985,000.

THE CITY'S PROPOSED REFUNDING OBJECTIVE

The Plan's Executive Summary indicates that the Series 2013 Refunding Bonds are being issued for "budgetary cash flow relief" and to maximize up front savings with minimal or no increase to aggregate debt service. The City's debt is being restructured to provide debt relief in Fiscal Years 2014 to 2024 by shifting debt service for those fiscal years to Fiscal Year 2025.

This series of refunding bonds will be the second of its kind since 2010. Refunding transactions such as these are often referred to as "scoop and toss" transactions since the current principal is scooped or removed from the current year(s) and thrown out to later years. The City's Financial Advisor has provided graphic representations of the impact of these refundings (copies are included as Attachment B).

In its debt management policy (the "Policy") the City states that a goal of the Policy is to assist the City to "[m]aintain appropriate resources and funding capacity for present and future capital needs." Prior to the 2010 refunding, the City's debt service would have declined smoothly over time, thereby making increasing amounts of revenues to be available for future capital projects or operations. The City could have chosen to adhere to this debt service schedule by raising revenues, reducing services or reducing expenditures to a sustainable level sufficient to cover the current debt service. Instead, by delaying the payment of principal, the City has chosen to shift the tax burden from current taxpayers to future generations. In order to avoid further financial stress, after the issuance of the Series 2013 Refunding Bonds, the City's use of "scoop and toss" refundings should be discontinued and a clear solution to the City's excess expenditures exceeding available revenues should be implemented.

COMPLIANCE WITH THE CITY'S DEBT MANAGEMENT POLICY

The City provided a copy of its Policy. When the City submits Form CT-0253 within 45 days of issuance of the Series 2013 Refunding Bonds, the City must describe, in specifics, how its debt issue complies with its Policy.

The State Funding Board has set as a minimum requirement that a debt management policy must require clear disclosure of the terms and life of each debt issue, including principal and interest payments. This disclosure must include a debt service schedule outlining the rate of retirement for the principal amount. If the policy permits deferral of payment on principal or backloading, the policy must require the City Council to provide specific justification for each deferral— it may not, however, permit blanket approval. It is noted that the City's Policy does not currently meet this minimum requirement regarding backloading. It also does not reflect use of interfund borrowings or the requirement to file the Report on Debt Obligation/CT-0253 with the City Council. The City has agreed to review and amend the Policy.

INTERNAL CONTROL CONCERNS

Local governments must have adequate internal controls to safeguard against and to detect promptly expenditures in excess of funds available. The City described in its communication internal control deficiencies related to budgetary controls and its pooled checking account. Without these safeguards, interfund loans to cover deficits were improperly made. . It should be noted that the City's strong financial reporting included the information by which we discovered the existence of weaknesses in internal controls related to budgetary compliance and other instances of noncompliance related to debt obligations.

The City needs to address these weaknesses to comply with the balanced budget requirements of the Tennessee Constitution, State law, and its own Charter. The City is directed to address the identified internal

control deficiencies to prevent future budgetary noncompliance, nonconforming obligations, and non-reporting of debt. Addressing these areas should reduce or prevent future instances of noncompliance. See Attachment C for a listing of weaknesses and directives.

FISCAL CONCERNS

Governments issuing notes under the Act must maintain their fiscal affairs on a cash basis and current receipts must be sufficient to meet current expenditures. This Office strongly encourages the Council to look at the fiscal needs of the community, including those that have been less visible due to the interfund borrowings. We are concerned with the low level of general fund balance after accomplishing the corrective actions listed above. The City appears to have funding needs in the near future for liabilities related to pension obligations, other post-employment benefit obligations, and money owed to the school system. Also, the City has aggressively used PILOTs and other property tax incentives for economic development purposes which have cut into future property tax revenue growth.

In this reappraisal year with a decrease in property values, the Council will have to increase the tax rate to the level of the certified tax rate just to achieve tax neutrality with the same amount of revenues as the current fiscal year. Pursuant to Tennessee Code Annotated Section 9-21-403 as long as notes issued under the Act are outstanding, the City must submit its budget for approval by the Comptroller who is to determine whether or not the budget will be in balance in accordance with the Act. If the budget does not comply with the Act, then the Comptroller has the power and the authority to direct Council as the governing body of the City to adjust its estimates or to make additional tax levies sufficient to comply with the Act.

REPORT OF THE REVIEW OF THE PLAN OF REFUNDING

Enclosed is the report of the review of the plan of refunding required by Tennessee Code Annotated Section 9-21-903. This letter and this report including the Plan are to be placed on the City's website prior to the meeting of the City Council adopting the refunding bond resolution and to be reviewed at that meeting.

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. THE ENCLOSED REPORT ASSUMES THAT THE CITY WILL ACCOMPLISH THE CORRECTIVE ACTION AND BECOME COMPLIANT WITH THE ACT PRIOR TO THE ISSUANCE OF THE SERIES 2013 REFUNDING BONDS.

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 or tax attorney.

Each 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

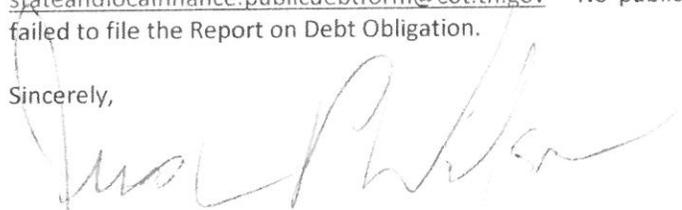
as being refunded unless the Chief Executive Officer or the Chief Financial Officer notifies our Office that the plan of refunding which has been submitted is no longer valid.

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 revised State Form CT-0253, Report on Debt Obligation. Pursuant to Tennessee Code Annotated Section 9-21-151, this form is to be completed and filed with the Council no later than forty-five (45) days after the issuance of this debt, with a copy (including attachments, if any) filed by mail with the Director of the Office of State and Local Finance 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.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT
Mr. Brian Collins, Director of Finance, City of Memphis
Ms. Patrice Thomas, Comptroller, City of Memphis
Mr. Andre D. Walker, Deputy Director of Finance, City of Memphis
Mr. Wayne Placide, First Southwest Company
Mr. Steve Turner, Hawkins, Delafield and Wood
Mr. Stan Sawyer, Banks, Finley, White & Co.

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

Attachments:
A: Grant Anticipation Note Resolution and Form (3)
B: Graphs re Debt Service (3)
C: Internal Control Weaknesses and Directives

**REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE
CONCERNING THE PROPOSED ISSUANCE OF
GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2013
CITY OF MEMPHIS, TENNESSEE**

The City of Memphis, Tennessee ("the City") submitted a plan of refunding (the "Plan") as required by Tennessee Code Annotated § 9-21-903 regarding for the proposed issuance of an amount not to exceed \$135,000,000 General Improvement Refunding Bonds, Series 2013 (the "Series 2013 Refunding Bonds").

The Plan was prepared with the assistance of the City's municipal advisor, First Southwest Company. The actual Series 2013 Refunding Bonds may be structured differently. The information presented in the Plan includes the assertions of the City and may not reflect either the City's current or future financial condition or market conditions currently or at the time of sale.

THE CITY'S PROPOSED REFUNDING OBJECTIVE

The Plan's Executive Summary indicated the Series 2013 Refunding Bonds are being issued for budgetary cash flow relief and to maximize up front savings with minimal or no increase to aggregate debt service.

PLAN OF REFUNDING

The City intends to sell by negotiation \$112,470,000 Series 2013 Refunding Bonds priced at an estimated premium of \$22,983,026 in the capital markets to advance refund:

- \$18,385,000 of the General Improvement Bonds, Series 2004 (the "Series 2004 Bonds");
- \$47,775,000 of the General Improvement Bonds, Series 2006A (the "Series 2006A Bonds"); and
- \$52,825,000 of the General Improvement Bonds, Series 2007A (the "Series 2007A Bonds").

Collectively, these are the "Refunded Bonds." The total amount of refunded principal is \$118,985,000.

The City's debt is being restructured to provide budgetary cash flow relief in Fiscal Years 2014 to 2024 shifting debt service for those fiscal years to Fiscal year 2025. The total debt service reduction for Fiscal Years 2014 through 2024 and 2026 is \$21,538,871 which appears to be shifted to Fiscal Year 2025. Debt service payments of \$10,003,748 are shifted from Fiscal Year 2014. There is a \$3,120 decrease in debt service in Fiscal Year 2026. It achieves the goal of budgetary cash flow relief in Fiscal Years 2014 through 2024 and in 2026 at the cost of shifting those payments to Fiscal Year 2025 with an increase in debt service payments in that fiscal year of \$21,475,219.

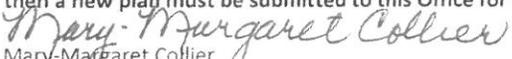
This series of refunding bonds will be the second of its kind since 2010. It restructures debt into future years reducing immediate budgetary cash requirements for debt service payments and shifting payments to future years. Restructuring debt service payments to future years may indicate current financial distress.

REFUNDING ANALYSIS

- The Series 2013 Refunding Bonds are intended to be sold with a premium coupon rate of 5.00% for each maturity in the proposed issue. An estimated premium of \$22,983,026 is expected to be generated by selling the Series 2013 Refunding Bonds with coupon rates above the projected bond yields at the time of sale.
- Gross savings of \$63,651 are estimated to be generated by this refunding.
- The Savings Schedule presented in the Plan's Bond Cash Flows and Statistical Summary indicates the proposed refunding will generate net present value savings of \$3,430,955 or 2.88% of the refunded principal amount of bonds totaling \$118,985,000.
- The final maturity proposed for the Series 2013 Refunding Bonds and the final maturity of the Series 2006A Bonds are both November 1, 2025.
- The average life of the Series 2013 Refunding Bonds is 8.97 years versus 7.60 years for the Refunded Bonds.
- Estimated costs of issuance are \$1,146,703 or \$10.20 per \$1,000 of par amount for the Series 2013 Refunding Bonds including underwriter's discount of \$746,703.

The City has identified First Southwest Company as its municipal advisor. Municipal advisors have a fiduciary responsibility to the issuer. Underwriters have no fiduciary responsibility to the City. 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 proposed plan or a determination that a refunding is advantageous or necessary nor that any of the Refunded Bonds 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. If all of the Refunded Bonds are not refunded as a part of the Series 2013 Refunding Bonds, then a new plan must be submitted to this Office for review of a plan of refunding for the residual bonds.


Mary-Margaret Collier

Director of the Office of State and Local Finance

Date: May 20, 2013

ATTACHMENT A

Interfund Grant Anticipation Note Resolutions (3)

RESOLUTION AUTHORIZING GRANT ANTICIPATION
INTERFUND LOAN TO THE CAPITAL PROJECTS FUND NOT TO EXCEED
\$25,000,000

WHEREAS, the City Memphis, Tennessee (the "City") has entered into agreements with various federal and state agencies under which the City expects to receive grants ("Grants") from said agencies in amounts totaling in excess of \$25,000,000 to finance various projects (the "Project") and said Grants and Project are further described in Exhibit A to this resolution;

WHEREAS, the Council of the City finds that it is advantageous to the City to pay costs of the Project in advance of the receipt of Grant funds;

WHEREAS, under the provisions of Parts 1, 2, 4 and 7 of Title 9, Chapter 21, Tennessee Code Annotated, local governments in Tennessee are authorized to issue and sell interest-bearing grant anticipation notes upon the approval of the State Comptroller of the Treasury or the Comptroller's designee;

WHEREAS, under the provisions of Section 9-21-408, Tennessee Code Annotated, local governments in Tennessee are authorized to make interfund loans in accordance with procedures for issuance of grant anticipation notes in Part 7 of Title 9, Chapter 21, Tennessee Code Annotated; and

WHEREAS, the Council of the City finds that it is advantageous to the City to authorize an interfund loan from the General Fund to the Capital Projects Fund, by issuance of grant anticipation notes, to provide funds for the Project in anticipation of the receipt of Grant funds;

NOW, THEREFORE, BE IT RESOLVED, by the Council of the City of Memphis, Tennessee, as follows:

Section 1. For the purpose of providing funds for the Project in anticipation of the receipt of Grant funds, the City is hereby authorized to issue grant anticipation notes in a principal amount not to exceed Twenty Five Million Dollars (\$25,000,000) (the "Notes") to evidence an interfund loan from the General Fund to the Capital Projects Fund in the same amount as the principal amount of the Notes, upon the approval of the State Comptroller of the Treasury or the Comptroller's designee, in accordance with the procedures for issuance of grant anticipation notes in Part 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated. The Notes shall be designated 2013 Grant Anticipation Interfund Loan Notes, Series A (Capital Projects Fund); shall be dated as of the date of issuance; and shall bear interest at a rate of zero percent (0%) per annum.

Section 2. The Notes shall mature not later than three (3) years after the date of issuance and shall pay interest at maturity or, with respect to any principal portion of the Notes redeemed prior to maturity, upon such redemption, in each case calculated on the basis of a 30-day month and a 360-day year.

Section 3. The Notes shall be subject to redemption prior to maturity at the option of the City at any time, in whole or in part from time to time by lot, upon payment of the principal

amount to be redeemed, together with accrued interest to the date of redemption, without the necessity of prior notice.

Section 4. That, the principal amount of the Notes shall be secured solely by the pledge of funds to be received pursuant to the Agency Grant, and the Local Government hereby pledges a portion or all of the Agency Grant in an amount at least equal to the principal amount of the Notes, being Twenty Five Million Dollars (\$25,000,000) to the payment of the principal amount of the Notes. The Local Government shall have no authority to levy ad valorem taxes for the payment of the principal of the Notes.

Section 5. That, the interest on the Notes shall be direct general obligations of the Local Government and the Local Government hereby pledges its taxing power as to all taxable property in the Local Government for the purpose of providing funds for the payment of interest on the Notes. Provided, however, that the proceeds of any capital outlay notes or bond anticipation notes shall not be applied to any payment of the Notes.

Section 6. The Notes shall be executed in the name of the City and bear the manual signature of the Mayor of the City and the manual signature of the City Comptroller, with the City seal impressed or reproduced thereon or affixed thereto.

Section 7. The Notes shall not be transferable or assignable.

Section 8. Proceeds of the Notes shall be transferred from the General Fund to the Capital Projects Fund and shall be paid out for Project purposes.

Section 9. The Notes may be extended or renewed as permitted by law.

Section 10. The Notes shall be in substantially the form attached hereto and shall recite that the Notes are issued pursuant to parts 1, 2, 4 and 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated.

Section 11. The Notes shall be issued only after the receipt of the written approval of the State Comptroller of the Treasury or the Comptroller's designee for the sale of the Notes and the loan of funds from the General Fund to the Capital Projects Fund.

Section 12. After the sale of the Notes, and for each year that any of the notes are outstanding, the City shall prepare an annual budget in a form consistent with accepted governmental standards and as approved by the Comptroller of the Treasury or Comptroller's Designee (the "Director".) The budget shall be kept balanced during the life of the notes. The annual budget shall be submitted to the Director immediately upon its adoption; however, it shall not become the official budget for the fiscal year until such budget is approved by the Comptroller of the Treasury or Comptroller's Designee in accordance with Title 9, Chapter 21, Tennessee Code Annotated (the "Statutes".) If the Comptroller of the Treasury or Comptroller's Designee determines that the budget does not comply with the Statutes, City Council shall adjust its estimates or make additional tax levies sufficient to comply with the Statutes, or as directed by the Comptroller of the Treasury or Comptroller's Designee.

Section 13. All orders or resolutions in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage.

Duly adopted this 21st day of May, 2013.

FORM OF NOTE

**UNITED STATES OF AMERICA
STATE OF TENNESSEE
CITY OF MEMPHIS
2013 GRANT ANTICIPATION INTERFUND LOAN
NOTE, SERIES A (CAPITAL PROJECTS FUND)**

The City of Memphis, Tennessee (the "City") hereby promises to pay the General Fund of the City, from the Capital Projects Fund of the City, on _____, unless this Note shall have been called for previous redemption and payment of the redemption price shall have been duly made or provided for, the principal amount of \$ _____, and to pay interest on such principal amount at maturity or, with respect to any principal portion of this Note redeemed prior to maturity, upon such redemption, at the rate of 0% per annum calculated on the basis of a 30-day month and a 360-day year, by internal City transfer.

This Note is one of a duly authorized series of notes (herein referred to as the "Notes") of the aggregate principal amount not exceeding twenty-five million dollars (\$25,000,000) of like date and tenor herewith, except for number and denomination, and is issued for the purpose of making a loan from the General Fund of the City to the Capital Projects Fund of the City to provide funds for a project in anticipation of the receipt of grant funds allocable to that project, under and pursuant to and in full compliance with the Constitution and statutes of the State of Tennessee, including Parts 1, 2, 4 and 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated, and a resolution duly adopted by the Council of the City on May 21, 2013.

The Notes are subject to redemption prior to maturity at the option of the City at any time, in whole or in part from time to time by lot, upon payment of the principal amount to be redeemed, together with accrued interest to date of redemption, without the necessity of prior notice.

The Notes shall be payable from proceeds of such grants and any other moneys of the City lawfully available therefor other than ad valorem taxes.

This Note shall not be transferred or assigned.

It is hereby certified, recited and declared that all acts, conditions and things required to have happened, to exist and to have been performed precedent to and in the issuance of this Note and the series of which it is one, do exist, have happened and have been performed in regular and due time, form and manner as required by law, and that this Note and the Notes of the series of which this Note is one do not exceed any constitutional or statutory limitation of indebtedness.

IN WITNESS WHEREOF, the City, by its Council, has caused this Note to be executed by the manual or facsimile signature of its Mayor; the seal of the City or a facsimile thereof to be impressed or reproduced hereon or affixed hereto, by facsimile or otherwise, attested by the manual or facsimile signature of its Comptroller; and this Note to be dated as of _____, 2013.

CITY OF MEMPHIS, TENNESSEE

[SEAL]

Mayor

ATTEST:

Comptroller

EXHIBIT A

Description of Project and Grants

Project	Grantor	Grant	Amount	Date
1 Mitsubishi Electric Power	Tennessee Department of Economic Development	Fast Track Infrastructure	\$11,000,000	5/4/2011
2 Beale Street Landing/Docking Facility	Tennessee Department of Transportation	Ferry Boat Discretionary et al	8,273,750	7/14/2008
3 STP Curb Improvement	Tennessee Department of Transportation	M-STP	2,344,000	8/17/2011
4 Milbranch Rd to Tchulahoma (Milbranch)	Tennessee Department of Transportation	STP-M-9409	6,940,600	5/24/2007
5 Fast Track -Cargill Railroad	Tennessee Department of Economic Development	Fast Track -K TG Substation	2,000,000	1/30/2012
6 Walnut Gr/Bend/Rocky Point Rd	Tennessee Department of Transportation	STP-M-9409	13,806,500	4/20/2007
Total			\$ 44,364,850	

RESOLUTION AUTHORIZING GRANT ANTICIPATION
INTERFUND LOAN TO WORKFORCE INVESTMENT ACT FUND NOT TO EXCEED
\$7,000,000

WHEREAS, the Workforce Investment Network (“WIN”) annually receives grants from the State of Tennessee Department of Labor and Workforce Development pursuant to the Workforce Investment Act of 1998 (WIA);

WHEREAS, WIN received an allotment of grants for 2012 totaling \$7,835,208 for its Adult Program, Youth Program, and Dislocated Worker Program as provided in the attached Exhibit A (the “Grants”) and may receive an additional allotment of grants (e.g., Incumbent Worker Training Program, incentive funds, etc.);

WHEREAS, such programs provide employment and training services and other activities pursuant to the WIA to assist individuals who have barriers to employment throughout the City of Memphis, Shelby County and Fayette County (the “Project”);

WHEREAS, the Council of the City finds that it is advantageous to the City to pay costs of the Project in advance of the receipt of Grant funds;

WHEREAS, under the provisions of Parts 1, 2, 4 and 7 of Title 9, Chapter 21, Tennessee Code Annotated, local governments in Tennessee are authorized to issue and sell interest-bearing grant anticipation notes upon the approval of the State Comptroller of the Treasury or the Comptroller’s designee;

WHEREAS, under the provisions of Section 9-21-408, Tennessee Code Annotated, local governments in Tennessee are authorized to make interfund loans in accordance with procedures for issuance of grant anticipation notes in Part 7 of Title 9, Chapter 21, Tennessee Code Annotated; and

WHEREAS, the Council of the City finds that it is advantageous to the City to authorize an interfund loan from the General Fund to the Workforce Investment Act Fund, by issuance of grant anticipation notes, to provide funds for the Project in anticipation of the receipt of Grant funds;

NOW, THEREFORE, BE IT RESOLVED, by the Council of the City of Memphis, Tennessee, as follows:

Section 1. For the purpose of providing funds for the Project in anticipation of the receipt of Grant funds, the City is hereby authorized to issue grant anticipation notes in a principal amount not to exceed Seven Million Dollars (\$7,000,000) (the “Notes”) to evidence an interfund loan from the General Fund to the Workforce Investment Act Fund in the same amount as the principal amount of the Notes, upon the approval of the State Comptroller of the Treasury or the Comptroller’s designee, in accordance with the procedures for issuance of grant anticipation notes in Part 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated. The Notes shall be designated 2013 Grant Anticipation Interfund Loan Notes, Series A (Workforce

Investment Act Fund); shall be dated as of the date of issuance; and shall bear interest at a rate of zero percent (0%) per annum.

Section 2. The Notes shall mature not later than three (3) years after the date of issuance and shall pay interest at maturity or, with respect to any principal portion of the Notes redeemed prior to maturity, upon such redemption, in each case calculated on the basis of a 30-day month and a 360-day year.

Section 3. The Notes shall be subject to redemption prior to maturity at the option of the City at any time, in whole or in part from time to time by lot, upon payment of the principal amount to be redeemed, together with accrued interest to the date of redemption, without the necessity of prior notice.

Section 4. That, the principal amount of the Notes shall be secured solely by the pledge of funds to be received pursuant to the Agency Grants, and the Local Government hereby pledges a portion or all of the Agency Grants in an amount at least equal to the principal amount of the Notes, being Seven Million Dollars (\$7,000,000) to the payment of the principal amount of the Notes. The Local Government shall have no authority to levy ad valorem taxes for the payment of the principal of the Notes.

Section 5. That, the interest on the Notes shall be direct general obligations of the Local Government and the Local Government hereby pledges its taxing power as to all taxable property in the Local Government for the purpose of providing funds for the payment of interest on the Notes. Provided, however, that the proceeds of any capital outlay notes or bond anticipation notes shall not be applied to any payment of the Notes.

Section 6. The Notes shall be executed in the name of the City and bear the manual signature of the Mayor of the City and the manual signature of the City Comptroller, with the City seal impressed or reproduced thereon or affixed thereto.

Section 7. The Notes shall not be transferable or assignable.

Section 8. Proceeds of the Notes shall be transferred from the General Fund to the Workforce Investment Act Fund and shall be paid out for Project purposes.

Section 9. The Notes may be extended or renewed as permitted by law.

Section 10. The Notes shall be in substantially the form attached hereto and shall recite that the Notes are issued pursuant to parts 1, 2, 4 and 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated.

Section 11. The Notes shall be issued only after the receipt of the written approval of the State Comptroller of the Treasury or the Comptroller's designee for the sale of the Notes and the loan of funds from the General Fund to the Workforce Investment Act Fund.

Section 12. After the sale of the Notes, and for each year that any of the notes are outstanding, the City shall prepare an annual budget in a form consistent with accepted governmental standards and as approved by the Comptroller of the Treasury or Comptroller's Designee (the

“Director”.) The budget shall be kept balanced during the life of the notes. The annual budget shall be submitted to the Director immediately upon its adoption; however, it shall not become the official budget for the fiscal year until such budget is approved by the Comptroller of the Treasury or Comptroller’s Designee in accordance with Title 9, Chapter 21, Tennessee Code Annotated (the “Statutes”.) If the Comptroller of the Treasury or Comptroller’s Designee determines that the budget does not comply with the Statutes, City Council shall adjust its estimates or make additional tax levies sufficient to comply with the Statutes, or as directed by the Comptroller of the Treasury or Comptroller’s Designee.

Section 13. All orders or resolutions in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage.

Duly adopted this 21st day of May, 2013.

FORM OF NOTE

**UNITED STATES OF AMERICA
STATE OF TENNESSEE
CITY OF MEMPHIS
2013 GRANT ANTICIPATION INTERFUND LOAN
NOTE, SERIES A (WORKFORCE INVESTMENT ACT FUND)**

The City of Memphis, Tennessee (the "City") hereby promises to pay the General Fund of the City, from the Workforce Investment Act Fund of the City, on _____, 20___, unless this Note shall have been called for previous redemption and payment of the redemption price shall have been duly made or provided for, the principal amount of \$_____, and to pay interest on such principal amount at maturity or, with respect to any principal portion of this Note redeemed prior to maturity, upon such redemption, at the rate of 0% per annum calculated on the basis of a 30-day month and a 360-day year, by internal City transfer.

This Note is one of a duly authorized series of notes (herein referred to as the "Notes") of the aggregate principal amount of seven million dollars (\$7,000,000) of like date and tenor herewith, except for number and denomination, and is issued for the purpose of making a loan from the General Fund of the City to the Workforce Investment Act Fund of the City to provide funds for a project in anticipation of the receipt of grant funds allocable to that project, under and pursuant to and in full compliance with the Constitution and statutes of the State of Tennessee, including Parts 1, 2, 4 and 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated, and a resolution duly adopted by the Council of the City on May 21, 2013.

The Notes are subject to redemption prior to maturity at the option of the City at any time, in whole or in part from time to time by lot, upon payment of the principal amount to be redeemed, together with accrued interest to date of redemption, without the necessity of prior notice.

The Notes shall be payable from proceeds of such grants and any other moneys of the City lawfully available therefor other than ad valorem taxes.

This Note shall not be transferred or assigned.

It is hereby certified, recited and declared that all acts, conditions and things required to have happened, to exist and to have been performed precedent to and in the issuance of this Note and the series of which it is one, do exist, have happened and have been performed in regular and due time, form and manner as required by law, and that this Note and the Notes of the series of which this Note is one do not exceed any constitutional or statutory limitation of indebtedness.

IN WITNESS WHEREOF, the City, by its Council, has caused this Note to be executed by the manual or facsimile signature of its Mayor; the seal of the City or a facsimile thereof to be impressed or reproduced hereon or affixed hereto. by facsimile or otherwise, attested by the manual or facsimile signature of its Comptroller; and this Note to be dated as of _____, 2013.

CITY OF MEMPHIS, TENNESSEE

[SEAL]

Mayor

ATTEST:

Comptroller

RESOLUTION AUTHORIZING GRANT ANTICIPATION
INTERFUND LOAN TO THE COMMUNITY DEVELOPMENT FUND NOT TO EXCEED
\$11,200,000

WHEREAS, the purpose of the City of Memphis' Consolidated Plan for Housing and Community Development (the "Plan") is to foster the development of viable urban neighborhoods which include decent housing for everyone, a suitable living environment, and expanded economic opportunities, especially for low and moderate income citizens; and

WHEREAS, the Plan contains a description of anticipated federal, state, and local housing resources for FY 2013, including Community Development Block Grant (CDBG) funds received under Title I of the Housing and Community Development Act of 1974, HOME funds received under Title II of the National Affordable Housing Act of 1990, Emergency Shelter Grant (ESG) funds authorized under the Stewart B. McKinney Assistance Act of 1987, and Housing Opportunities for Persons with AIDS (HOPWA) funds, as show in the following table (the "Grants"); and

<u>Program</u>	<u>FY 2013 Award</u>
CDBG Program	\$ 6,589,508.00
HOME Program	2,800,852.00
ESG Program	199,832.00
HOPWA Program	1,705,456.00
<u>Total</u>	<u>\$ 11,295,648.00</u>

WHEREAS, the Council of the City finds that it is advantageous to the City to pay costs of the Plan in advance of the receipt of grant funds;

WHEREAS, under the provisions of Parts 1, 2, 4 and 7 of Title 9, Chapter 21, Tennessee Code Annotated, local governments in Tennessee are authorized to issue and sell interest-bearing grant anticipation notes upon the approval of the State Comptroller of the Treasury or the Comptroller's designee;

WHEREAS, under the provisions of Section 9-21-408, Tennessee Code Annotated, local governments in Tennessee are authorized to make interfund loans in accordance with procedures for issuance of grant anticipation notes in Part 7 of Title 9, Chapter 21, Tennessee Code Annotated; and

WHEREAS, the Council of the City finds that it is advantageous to the City to authorize an interfund loan from the Sewer Fund to the Community Development Fund, by issuance of grant anticipation notes, to provide funds for the Plan in anticipation of the receipt of Grant funds;

NOW, THEREFORE, BE IT RESOLVED, by the Council of the City of Memphis, Tennessee, as follows:

Section 1. For the purpose of providing funds for the Plan in anticipation of the receipt of grant funds, the City is hereby authorized to issue grant anticipation notes in a principal amount

not to exceed Eleven Million Two Hundred Thousand Dollars (\$11,200,000) (the "Notes") to evidence an interfund loan from the Sewer Fund to the Community Development Fund in the same amount as the principal amount of the Notes, upon the approval of the State Comptroller of the Treasury or the Comptroller's designee, in accordance with the procedures for issuance of grant anticipation notes in Part 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated. The Notes shall be designated 2013 Grant Anticipation Interfund Loan Notes, Series A (Community Development Fund); shall be dated as of the date of issuance; and shall bear interest at a rate of zero percent (0%) per annum.

Section 2. The Notes shall mature not later than three (3) years after the date of issuance and shall pay interest at maturity or, with respect to any principal portion of the Notes redeemed prior to maturity, upon such redemption, in each case calculated on the basis of a 30-day month and a 360-day year.

Section 3. The Notes shall be subject to redemption prior to maturity at the option of the City at any time, in whole or in part from time to time by lot, upon payment of the principal amount to be redeemed, together with accrued interest to the date of redemption, without the necessity of prior notice.

Section 4. That, the principal amount of the Notes shall be secured solely by the pledge of funds to be received pursuant to the Agency Grants, and the Local Government hereby pledges a portion or all of the Agency Grants in an amount at least equal to the principal amount of the Notes, being Eleven Million Two Hundred Thousand Dollars (\$11,200,000) to the payment of the principal amount of the Notes. The Local Government shall have no authority to levy ad valorem taxes for the payment of the principal of the Notes.

Section 5. That, the interest on the Notes shall be direct general obligations of the Local Government and the Local Government hereby pledges its taxing power as to all taxable property in the Local Government for the purpose of providing funds for the payment of interest on the Notes. Provided, however, that the proceeds of any capital outlay notes or bond anticipation notes shall not be applied to any payment of the Notes.

Section 6. The Notes shall be executed in the name of the City and bear the manual signature of the Mayor of the City and the manual signature of the City Comptroller, with the City seal impressed or reproduced thereon or affixed thereto.

Section 7. The Notes shall not be transferable or assignable.

Section 8. Proceeds of the Notes shall be transferred from the Sewer Fund to the Community Development Fund and shall be paid out for Plan purposes.

Section 9. The Notes may be extended or renewed as permitted by law.

Section 10. The Notes shall be in substantially the form attached hereto and shall recite that the Notes are issued pursuant to parts 1, 2, 4 and 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated.

Section 11. The Notes shall be issued only after the receipt of the written approval of the State Comptroller of the Treasury or the Comptroller's designee for the sale of the Notes and the loan of funds from the Sewer Fund to the Community Development Fund.

Section 12. After the sale of the Notes, and for each year that any of the notes are outstanding, the City shall prepare an annual budget in a form consistent with accepted governmental standards and as approved by the Comptroller of the Treasury or Comptroller's Designee (the "Director".) The budget shall be kept balanced during the life of the notes. The annual budget shall be submitted to the Director immediately upon its adoption; however, it shall not become the official budget for the fiscal year until such budget is approved by the Comptroller of the Treasury or Comptroller's Designee in accordance with Title 9, Chapter 21, Tennessee Code Annotated (the "Statutes".) If the Comptroller of the Treasury or Comptroller's Designee determines that the budget does not comply with the Statutes, City Council shall adjust its estimates or make additional tax levies sufficient to comply with the Statutes, or as directed by the Comptroller of the Treasury or Comptroller's Designee.

Section 13. All orders or resolutions in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage.

Duly adopted this 21st day of May, 2013.

FORM OF NOTE

**UNITED STATES OF AMERICA
STATE OF TENNESSEE
CITY OF MEMPHIS
2013 GRANT ANTICIPATION INTERFUND LOAN
NOTE, SERIES A (COMMUNITY DEVELOPMENT FUND)**

The City of Memphis, Tennessee (the "City") hereby promises to pay the Sewer Fund of the City, from the Community Development Fund of the City, on _____, 20___, unless this Note shall have been called for previous redemption and payment of the redemption price shall have been duly made or provided for, the principal amount of \$_____, and to pay interest on such principal amount at maturity or, with respect to any principal portion of this Note redeemed prior to maturity, upon such redemption, at the rate of 0% per annum calculated on the basis of a 30-day month and a 360-day year, by internal City transfer.

This Note is one of a duly authorized series of notes (herein referred to as the "Notes") of the aggregate principal amount of eleven million two hundred thousand dollars (\$11,200,000) of like date and tenor herewith, except for number and denomination, and is issued for the purpose of making a loan from the Sewer Fund of the City to the Community Development Fund of the City to provide funds for a project in anticipation of the receipt of grant funds allocable to that project, under and pursuant to and in full compliance with the Constitution and statutes of the State of Tennessee, including Parts 1, 2, 4 and 7 of Title 9, Chapter 21, and Section 9-21-408, Tennessee Code Annotated, and a resolution duly adopted by the Council of the City on May 21, 2013.

The Notes are subject to redemption prior to maturity at the option of the City at any time, in whole or in part from time to time by lot, upon payment of the principal amount to be redeemed, together with accrued interest to date of redemption, without the necessity of prior notice.

The Notes shall be payable from proceeds of such grants and any other moneys of the City lawfully available therefor other than ad valorem taxes.

This Note shall not be transferred or assigned.

It is hereby certified, recited and declared that all acts, conditions and things required to have happened, to exist and to have been performed precedent to and in the issuance of this Note and the series of which it is one, do exist, have happened and have been performed in regular and due time, form and manner as required by law, and that this Note and the Notes of the series of which this Note is one do not exceed any constitutional or statutory limitation of indebtedness.

IN WITNESS WHEREOF, the City, by its Council, has caused this Note to be executed by the manual or facsimile signature of its Mayor; the seal of the City or a facsimile thereof to be impressed or reproduced hereon or affixed hereto, by facsimile or otherwise, attested by the manual or facsimile signature of its Comptroller; and this Note to be dated as of _____, 2013.

CITY OF MEMPHIS, TENNESSEE

[SEAL]

Mayor

ATTEST:

Comptroller

ATTACHMENT B

Graphs re Debt Service (3)

Chart 1
Impact the 2010 debt restructuring has on Memphis' debt repayment structure

Debt Restructuring Component

Total Net Debt Service

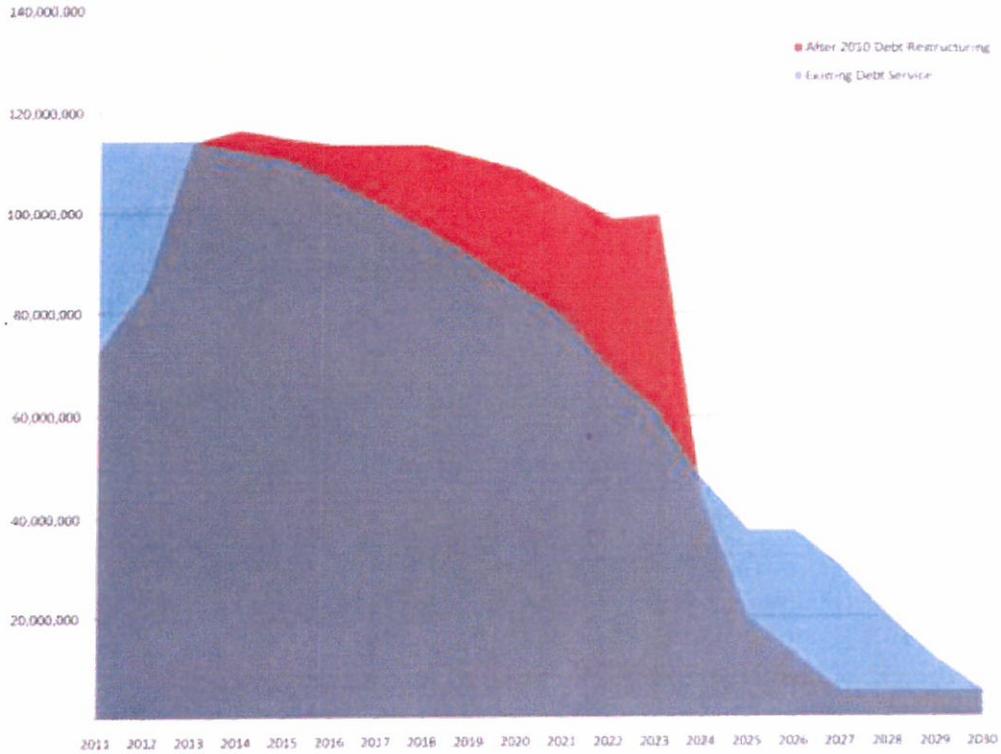


Chart 2

Impact of the 2012 debt restructuring has on Memphis' debt repayment structure

*** PRELIMINARY, FOR ILLUSTRATIVE PURPOSES ***

Debt Refunding Component

Debt Service

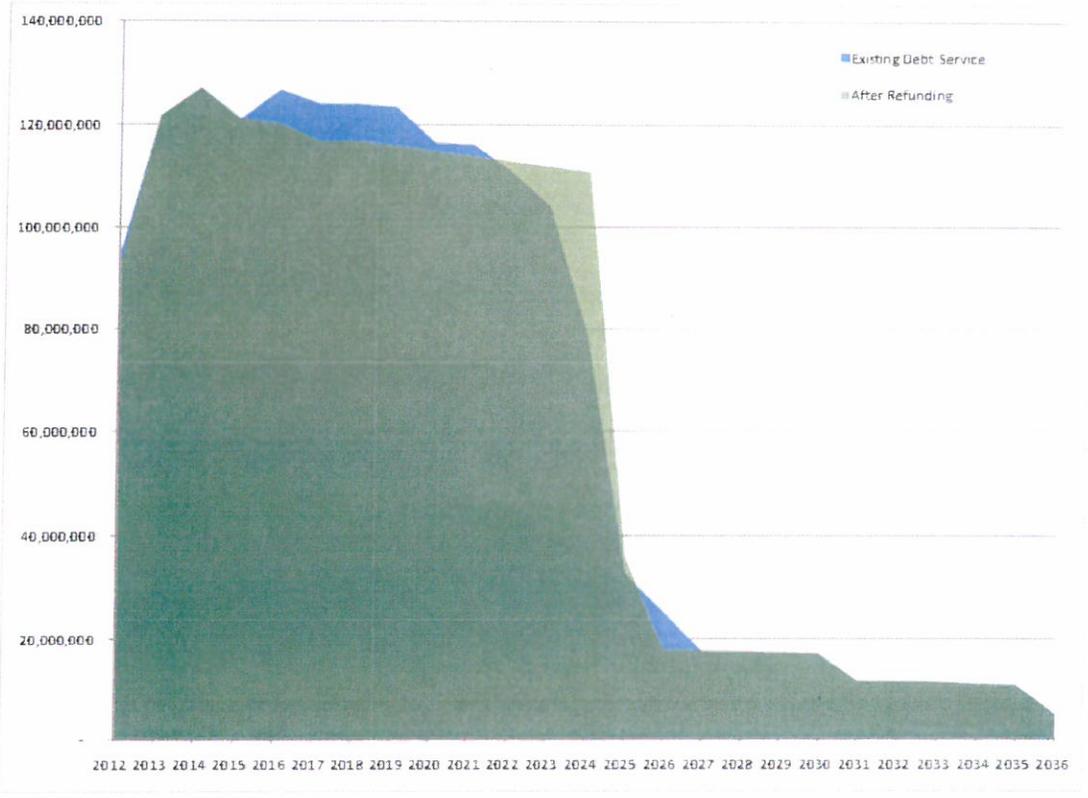


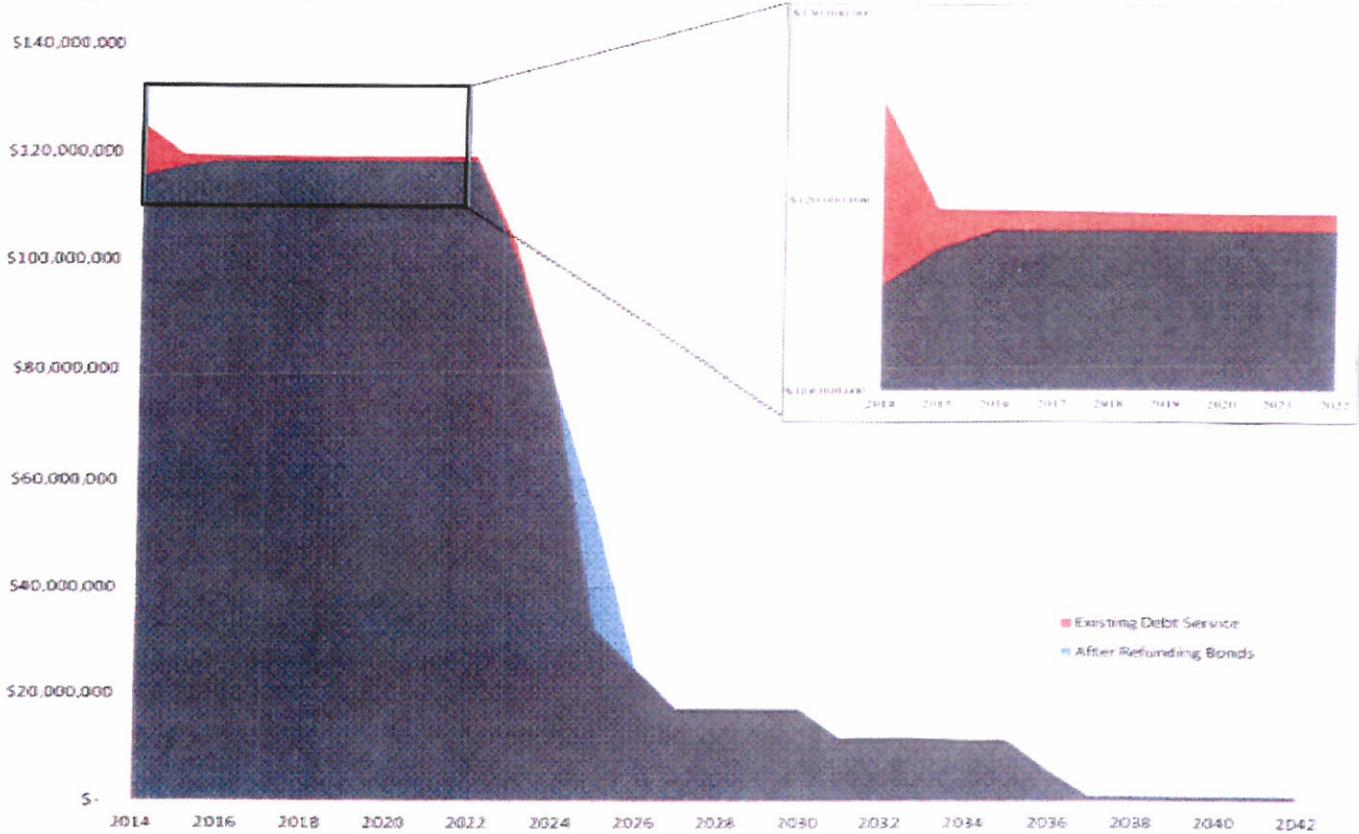
Chart 3

Impact of the proposed 2013 debt restructuring on Memphis' debt repayment structure

*** PRELIMINARY. For Illustrative Purposes Only ***

Plan of Refunding

Aggregate Debt Service Impact



ATTACHMENT C

Internal Control Weaknesses and Directives

INTERNAL CONTROL DEFICIENCIES

WEAKNESSES

Budgetary

- The City does not have an effective process to properly identify and communicate which funds may require a budgetary transfer of monies or the issuance of tax or grant anticipation notes to prevent operating cash deficits within the funds. (TN CONST. Art. 2 § 24, TENN CODE ANN. § 9-1-116, TENN CODE ANN. § 6-56-203, City of Memphis Charter Article 38 Sec. 332)
- The City does not appear to have budgetary control accounts in its accounting and purchasing system to control its spending based on the availability of cash by fund. The City spends money against a specific fund's appropriations from its pooled cash account without tracking the monies appropriated and available to that fund. (TN CONST. Art. 2 § 24, TENN CODE ANN. § 9-1-116, City of Memphis Charter Article 38 Sec. 341 & 342, concerning appropriations only Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 17, 18, 19)
- If a fund's programs appropriations are exceeded, the City has appropriated monies retroactively after the end of the fiscal year. The lack of timely information concerning the City's actual budget performance versus the budgeted amounts for revenues and expenditures impedes corrective action by the City Council. (TN CONST. Art. 2 § 24, TENN CODE ANN. § 9-1-116, TENN CODE ANN. § 9-21-403, and City of Memphis Charter Article 38 Sec. 341 & 342, City of Memphis Ordinance No. 1852)

Interfund Loans

- The City's Debt Management Policy does not authorize interfund loans or provide criteria for their use.
- The City did not meet the requirements precedent to the issuance of notes in Tennessee Code Annotated Title 9 Chapter 21 including failure of the City Council to authorize the interfund loans.
- The City has not been filing the Report on Debt Obligation/Form CT-0253, for interfund loans to meet the reporting requirements of TENN. CODE ANN. § 9-21-151.

DIRECTIVES

- The City must review and amend its Budgeting Policy and establish procedures:
 - to ensure that the City meets all budgeting requirements of the State Constitution, State statutes, and its Charter;
 - to ensure coordination between those responsible for budgeting, accounting, purchasing and other expenditures, and cash management to prevent expenditures from being made in excess of available cash in the appropriate fund or appropriations from being exceeded;

- to ensure timely reporting quarterly to the City Council of budgeted revenues and expenditures to actual revenues and expenditures for each fund, of legal compliance, and of the City's cash status for each fund;
- to ensure that the Mayor and department heads are informed when a department submits any request for which no appropriation has been made or when cash is not available for payment in the appropriate fund;
- to ensure that a process is in place to permit the City Council to take appropriate action to amend the City's budget to appropriate any necessary transfers or to amend appropriated amounts to maintain a balanced budget that meets all requirements of statute;
- to ensure that for all new appropriations or increases in existing appropriation, available monies are appropriated before expenditures are made in accordance with the State Constitution, State statutes and the City's Charter.
- The City must review and amend its Accounting Policy and establish procedures:
 - to ensure that prior to the issuance of a purchase order or expenditure commitment, the City's Comptroller certifies the availability of monies; and
 - for each fund participating in the City's pooled checking account, to prevent improper transfers/interfund loans between funds and to ensure that sufficient cash is available to pay current obligations.
- The City must review and amend its Debt Management Policy and establish procedures:
 - to authorize interfund loans and provide criteria for their use;
 - to meet the requirements precedent to the issuance of notes in Tennessee Code Annotated Title 9 Chapter 21 for interfund loans; and
 - to ensure the filing of Form CT-0253 for all of the City's debt including interfund loans.