



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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October 3, 2017

Honorable Timothy Burchett, Mayor
and Honorable Board of Commissioners
Knox County
400 Main Avenue, Suite 630
Knoxville, TN 37902

Dear Mayor Burchett and Members of the Board:

Please provide a copy of this report to each member of the governing body at the public meeting during which the report is reviewed. Additionally, this letter, report, and plan of refunding (the "Plan"), are to be posted on the website of Knox County (the "County").

This letter acknowledges receipt of a request on October 2, 2017, from the County to review the Plan for the issuance of an estimated \$62,345,000 General Obligation Refunding Bonds, Series 2017, (the "Series 2017 Refunding Bonds") to advance refund:

- \$26,650,000 General Obligation Refunding Bonds, Series 2010B, and
- \$31,825,000 General Obligation Bonds, Series 2013.

Collectively these are the "Refunded Bonds." The total amount of refunded principal is \$58,475,000.

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 County and may not reflect either current market conditions or market conditions at the time of sale.

Balloon Indebtedness

The County determined the structure of the Series 2017 Refunding Bonds presented in the Plan is balloon indebtedness. However, as of the date of this letter, the balloon indebtedness statute would not be applicable because the proposed debt to be issued is secured solely by the County's general obligation pledge, and the County has some amount of long-term general obligation indebtedness outstanding that is rated AA+/Aa1 or better. As long as the County maintains a rating at AA+/Aa1 or better, the County will not be subject to the requirements of T.C.A. § 9-21-134 concerning balloon indebtedness.

County’s Proposed Refunding Objective

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

Compliance with the County’s Debt Management Policy

The County provided a copy of its debt management policy, and within forty-five days (45) 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 County amends its policy, please submit the amended policy to this office.

Financial Professionals

The County has reported Cumberland Securities Company, Inc. as its municipal advisor. Municipal advisors have a fiduciary responsibility to the County. Underwriters have no fiduciary responsibility to the County. They represent the interests of their firm and are not required to act in the County’s best interest without regard to their own or other interests. The Plan was prepared by the County with the assistance of its 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 County 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.

Municipal Securities Rulemaking Board (MSRB) Voluntary Disclosure of Bank Loans

The Municipal Securities Rulemaking Board (MSRB) released regulatory notices: MSRB Notice 2011-52, providing guidance on the use of “bank loans” that could be a private placement of municipal securities subject to specific regulatory requirements including disclosure; and MSRB Notice 2012-18, encouraging the voluntary disclosure of bank loan financings through the MSRB’s Electronic Municipal Market Access (EMMA®) website (emma.msrb.org). For more information see the preceding notices on the MSRB’s website (msrb.org). To learn how to submit disclosure see the link at the bottom of the EMMA website labeled Submit Documents or the Education Center of the MSRB’s website.

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 County 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 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. A fillable PDF of Form CT-0253 can be found at <http://www.comptroller.tn.gov/sl/pubdebt.asp>.

If you should have any questions regarding this letter or the following report, please feel free to call us.

Sincerely,



Sandra Thompson
Director of the Office of State & Local Finance

cc: Mr. Bryan Burklin, Assistant Director, Division of Local Government Audit, COT
Mr. Chris Caldwell, Knox County
Mr. Joe Ayres, Cumberland Securities Company, Inc.
Mr. Chris Bessler, Cumberland Securities Company, Inc.
Mr. Mark Mamantov, Bass Berry & Sims

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
KNOX COUNTY, TENNESSEE
OF
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017**

Knox County (the "County") submitted a plan of refunding (the "Plan"), as required by T.C.A. § 9-21-903 regarding the issuance of an estimated \$62,345,000 General Obligation Refunding Bonds, Series 2017, (the "Series 2017 Refunding Bonds") to advance refund:

- \$26,650,000 General Obligation Refunding Bonds, Series 2010B, and
- \$31,825,000 General Obligation Bonds, Series 2013.

Collectively these are the "Refunded Bonds." The total amount of refunded principal is \$58,475,000.

The Plan was prepared with the assistance of the County's municipal advisor, Cumberland Securities Company, Inc. 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 2017 Refunding Bonds may be issued with a structure different than that of the Plan.

The County's Debt Management Policy

The County provided a copy of its debt management policy, and within forty-five days (45) 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 County amends its policy, please submit the amended policy to this office.

Balloon Indebtedness

The County determined the structure of the Series 2017 Refunding Bonds presented in the Plan is balloon indebtedness. However, as of the date of this letter, the balloon indebtedness statute would not be applicable because the proposed debt to be issued is secured solely by the County's general obligation pledge, and the County has some amount of long-term general obligation indebtedness outstanding that is rated AA+/Aa1 or better. As long as the County maintains a rating at AA+/Aa1 or better, the County will not be subject to the requirements of T.C.A. § 9-21-134 concerning balloon indebtedness.

County's Proposed Refunding Objective

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

Refunding Analysis

- The results of the refunding are based on the issuance of \$62,345,000 Series 2017 Refunding Bonds by competitive sale and priced at par.
- The County plans to contribute \$686,395 to fund the transaction.
- The estimated net present value savings of the refunding is \$4,719,559 or approximately 8.07% of the refunded principal amount of \$58,475,000.

- The refunding generates savings by reducing the interest rate on the outstanding debt from an aggregate average coupon of 4.05% for the Refunded Bonds to an average coupon of 2.43% for the Series 2017 Refunding Bonds.
- The final maturity of the Series 2017 Refunding Bonds does not extend beyond the final maturity of the Refunded Bonds.
- Estimated cost of issuance of the Series 2017 Refunding Bonds is \$535,340 or approximately \$8.59 per \$1,000 of the par amount of the bonds to be issued. See Table 1 for individual costs of issuance.

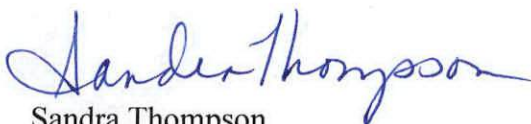
Table 1
Costs of Issuance of Series 2017 Refunding Bonds

| | Amount | Price per \$1,000 bond |
|---|----------------------|------------------------|
| Underwriter's Discount (TBD by competitive sale) | \$ 315,645.31 | \$ 5.07 |
| Municipal Advisor (Cumberland Securities Company) | 75,000.00 | 1.20 |
| Bond Counsel (Bass Berry & Sims) | 60,000.00 | 0.96 |
| Rating Agency Fees (Moody's and S&P) | 66,500.00 | 1.07 |
| Other Costs | 18,195.00 | 0.29 |
| Total Cost of Issuance | \$ 535,340.31 | \$ 8.59 |

The County has identified Cumberland Securities Company, Inc. as 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.

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 County. The assumptions included in the County'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 Series 2017 Refunding Bonds, and the County 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: October 3, 2017