



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

January 23, 2019

Honorable Kevin Brooks, Mayor
Mr. Shawn McKay, Assistant City Manager/CFO
and Honorable City Council
City of Cleveland
P.O. Box 1519
Cleveland, TN 37364-1519

Dear Mayor Brooks, Mr. McKay and Members of the Council:

This letter, report and plan of refunding (the "Plan") are to be posted on the City of Cleveland's (the "City") website. Please provide a copy of the letter, report, and Plan to each city council member for review at the public meeting for the adoption of the refunding bond authorizing resolution.

We acknowledge receipt on January 17, 2019, of a request from the City to review its Plan for the issuance of an estimated \$48,790,000 General Obligation Refunding Bonds, Series 2019 (the "Series 2019 Refunding Bonds"), at a premium to current refund a total of \$56,432,000 in outstanding debt as follows: (a) \$20,470,000 General Obligation Refunding Bonds, Series 2009C; (b) \$11,425,000 General Obligation Refunding Bonds, Series 2009D; (c) \$20,931,000 General Obligation Refunding Bonds, Series 2014A; and (d) \$3,606,000 Jetport PBA Loan Agreement. The aforementioned bonds and loan agreement will hereinafter collectively be known as the "Refunded Bonds". Maturities to be refunded are June 1, 2020 and thereafter for all 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.

Financial Professionals

The City has indicated in its request letter that its municipal advisor, Davenport & Company LLC, provided advice the City relied upon to prepare its refunding plan. 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.

Private Negotiated Sale Approval

The City has requested approval to sell its refunding bonds through a negotiated sale. This letter constitutes approval for the City to negotiate the sale of the Series 2019 Refunding Bonds, conditioned upon the requirement that the bonds are sold with the same principal repayment schedule as presented in the plan or the principal repayment schedule is accelerated.

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.

Report of the Review of a Plan of Refunding

The enclosed report must be presented to the governing body of the City for review prior to the adoption of a refunding bond authorizing resolution.

The enclosed report does not constitute approval or disapproval for the 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 is effective for a period of ninety (90) days from the date of the report. If the refunding bonds have not been sold within the ninety (90) day period, a new plan of refunding, with new analysis and estimates based on market conditions at that time, must be submitted to this office. We will then issue a report on the new plan for the governing body of the City to review prior to adopting a new refunding bond authorizing resolution.

This letter and the enclosed report do not address compliance with federal tax regulations and are not to be relied upon for that purpose. The City should discuss these issues with its bond counsel.

The assumptions of the plan are the assertions of the City. An evaluation of the preparation, support and underlying assumptions of the plan has not been performed by this office. The enclosed report provides no assurances of the reasonableness of the underlying assumptions.

Required Notification

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. However, if the actual results differ significantly from the information provided in the submitted Plan, the governing body of the City and our office should be notified after the sale by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences.

Notification will be necessary only if there is a change of ten percent (10%) or more in any of the following:

1. An increase in the principal amount of the debt issued;
2. An increase in costs of issuance; or
3. A decrease in the cumulative savings or increase in the loss (if applicable).

The notification must include an explanation for any significant differences and the justification for change of ten percent (10%) or more from the amounts in the plan. This notification should be presented to the governing body of the City and our office with the required filing of the Report on Debt Obligation, Form CT-0253.

MSRB Rule G-17

MSRB Rule G-17 requires underwriters and municipal advisors to deal fairly with the City in the conduct of its municipal securities or municipal advisory activities. The Securities and Exchange Commission approved MSRB Notice 2012-25 on the duties of underwriters to issuers of municipal securities on May 4, 2012. On August 2, 2012, this interpretive notice to MSRB Rule G-17 on fair dealing became part of federal securities law and underwriters are required to comply with its provisions.

These duties fall into three areas:

- statements and representations to issuers;
- disclosures to issuers; and
- financial aspects of underwriting transactions.

To learn more about the obligations of the City's underwriter (if applicable) and municipal advisor, please read the information posted on the MSRB website: www.msrb.org.

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 mail to the address on this letterhead or by email to SLF.PublicDebtForm@cot.tn.gov. 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 the form is available at: <https://comptroller.tn.gov/office-functions/state-and-local-finance/local-government/debt/report-on-debt-obligation.html>.

If you should have questions or need assistance, please feel free to contact your financial analyst, Lori Barnard, at 615.747.5347 or Lori.Barnard@cot.tn.gov. You may also contact our office by mail at the address located at the bottom of this page. Please send it to the attention of your analyst at the Office of State and Local Finance.

Sincerely,



Sandra Thompson
Director of the Office of State and Local Finance

cc: Mr. Mark Mamantov, Bass, Berry & Sims PLC
Mr. Ted Cole, Davenport & Company LLC
Ms. Jean Suh, Contract Audit Review Manager, Division of Local Government Audit

Enclosures: Report of the Director of the Office of State and Local Finance
Report on Debt Obligation

**REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE
CONCERNING THE PROPOSED ISSUANCE OF
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019
BY THE CITY OF CLEVELAND, TENNESSEE**

The government of the City of Cleveland, Tennessee, (the “City”) submitted a plan of refunding (the “Plan”) as required by TCA § 9-21-903 regarding the issuance of an estimated \$48,790,000 General Obligation Refunding Bonds, Series 2019 (the “Series 2019 Refunding Bonds”) at a premium to current refund a total of \$56,432,000 in outstanding debt:

- \$20,470,000 General Obligation Refunding Bonds, Series 2009C;
- \$11,425,000 General Obligation Refunding Bonds, Series 2009D;
- \$20,931,000 General Obligation Refunding Bonds, Series 2014A; and
- \$ 3,606,000 Jetport PBA Loan Agreement

The aforementioned bonds and loan agreement will hereinafter collectively be known as the “Refunded Bonds”. Maturities to be refunded are June 1, 2020, and thereafter for all Refunded Bonds.

The City has indicated in its request letter that its municipal advisor, Davenport & Company LLC, provided advice the City relied upon to prepare its refunding plan. The assumptions of the Plan are the assertions of the City. 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 2019 Refunding Bonds may be issued with a structure different from that of the Plan. The City has provided a copy of its debt management policy.

Balloon Indebtedness

The structure of the Series 2019 Refunding Bonds presented in the Plan does not appear to be balloon indebtedness. 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. If it is determined that the bond structure constitutes balloon indebtedness, the City must submit a Plan of Balloon Indebtedness to the Director of the Office of State and Local Finance for approval prior to the City adopting the resolution authorizing the issuance of the debt.

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.

City’s Proposed Refunding Objective

The Series 2019 Refunding Bonds are being issued for net present value debt service savings, to eliminate interest rate reset risk associated with the series 2014A bonds and the 2014 Jetport PBA Loan Agreement, as well as to bring the City into compliance with its adopted debt policy which requires the City to maintain at least 50% of its outstanding debt at a fixed interest rate.

Refunding Analysis

- The results of the refunding assume that the City intends to sell \$48,790,000 Series 2019 Refunding Bonds by negotiated sale, priced at a premium of \$7,071,457.
- The estimated net present value debt service savings is \$4,241,103 or 7.52% of the refunded principal amount of \$56,432,000.
- The maturities of the Series 2019 Refunding Bonds are structured so that 87% of the principal is repaid over the first 10 years of the life of the bonds.
- The final maturity of the Series 2019 Refunding Bonds does not extend beyond the final maturity of the bonds that are being refunded.
- The estimated cost of issuance for the proposed refunding is \$665,925 or \$13.65 per \$1,000 of the \$48,790,000 par amount of the Series 2019 Refunding Bonds. See Table 1 for individual costs of issuance.

Table 1
Costs of Issuance

	<u>Amount</u>	<u>Price per</u> <u>\$1,000 Bond</u>
Underwriter's Discount (TBD)	\$ 365,925	\$ 7.50
Municipal Advisor (Davenport & Company)	150,000	3.07
Bond Counsel	50,000	1.02
Rating Agency	80,000	1.64
Other Expenses	20,000	0.41
Total Cost of Issuance	\$ 665,925	\$ 13.65

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 the City does not refund all the Refunded Bonds as a part of the Series 2019 Refunding Bonds, and the City wishes to refund a portion in a subsequent bond issue, then a new plan will have to be submitted to this office for review.

This report is effective for a period of ninety (90) days from the date of the report. If the refunding transaction has not been sold during this ninety (90) day period, a new plan of refunding, with new analysis and estimates based on market conditions at that time, must be submitted to this office.



Sandra Thompson
Director of the Office of State and Local Finance
Date: January 23, 2019