City of Franklin, Tennessee
DEPFA Refunding Considerations
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Table of Contents

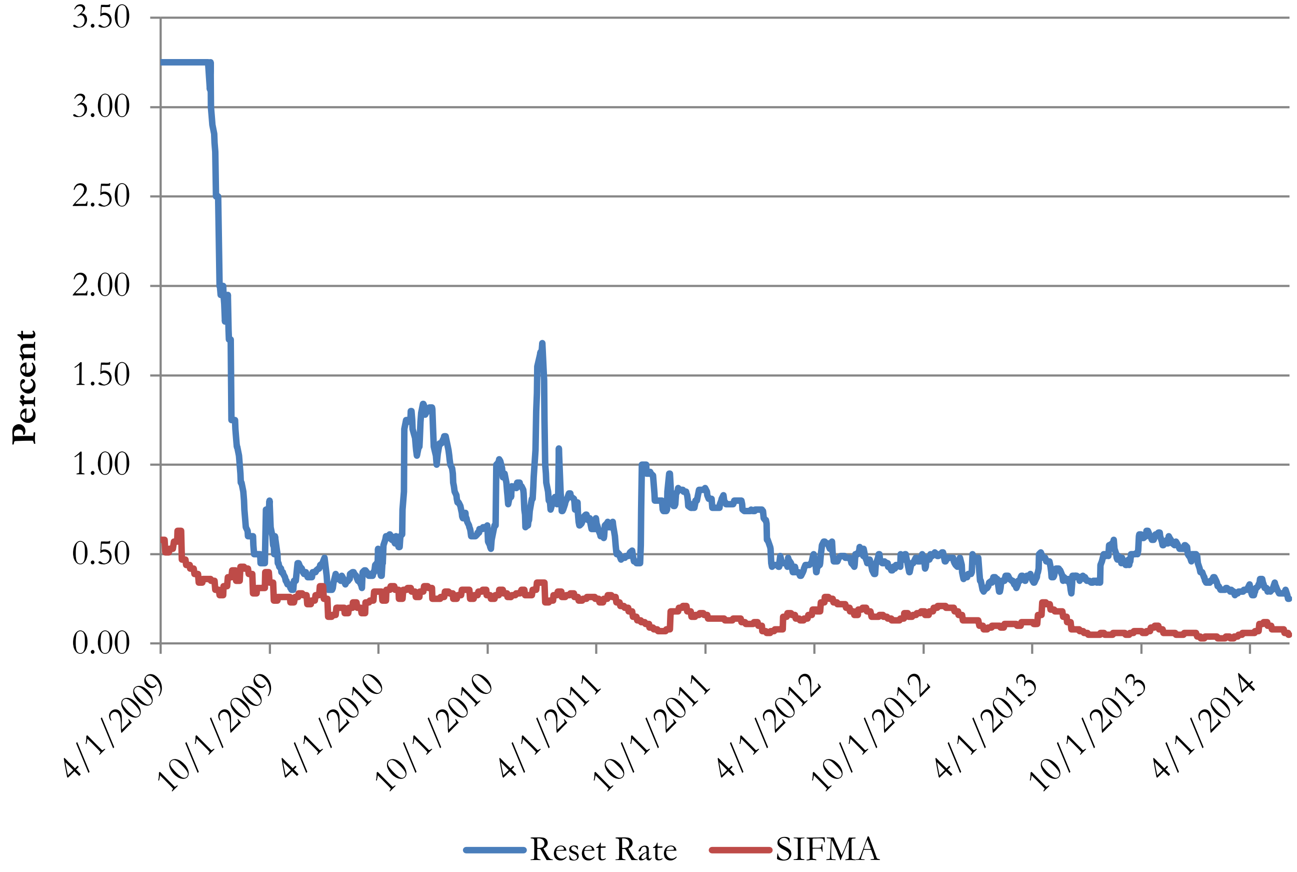
I. Background

Series 101-A-1 Bonds (the "Bonds")

- On January 25, 2005, the City of Franklin, TN (the "City) issued $20,000,000 Local Government Public Improvement Bonds, Series 101-A-1 (the "Bonds") through the Franklin Public Building Authority.
- The Bonds were issued as Variable Rate Demand Bonds ("VRDB") and issued with a Standby Bond Purchase Agreement ("SBPA") supported by DEPFA.
  - The SBPA with DEPFA expires June 1, 2019 and has an annual premium of 16 bps (0.16%).
- Simultaneously, the City entered into a synthetic fixed rate interest rate swap with DEPFA by which the City pays DEPFA a fixed rate of 3.59% and receives 63% of 5 year LIBOR.
  - The swap with DEPFA expires June 1, 2037 and has a current market value of $3.1 million.
- DEPFA faced serious liquidity concerns at the height of the financial crisis of 2008 and was subsequently downgraded to Baa3/BBB/BBB+.
- Since the multi-notch downgrade to DEPFA, the variable rate on the Bonds have reset above the variable rate indices.

The Bonds Variable Rate History

The Bond's variable rate has consistently reset above the SIFMA variable rate index.



II. Refinancing Options

A. Replacing DEPFA
   i. Alternate Provider
   ii. Self Liquidity
   iii. FMSW
B. Floating Rate Notes (FRNs)
C. Fixed Rate

Option A(i) - Replacing DEPFA with Alternate Provider

- The City would replace DEPFA as the SBPA provider and Swap provider as a means of reducing risk and potentially saving money.

	DEPFA	Alternate Provider[1]
SBPA Premium (%)	0.16	0.35
Spread over SIFMA (%)	0.26	0.00
Total Variable Rate (%)	0.42	0.35

- An alternate SBPA will likely be for a 3 year term and require a renewal or replacement SBPA provider at the end of the 3 year term.
- The City would replace DEPFA as the Swap provider by novating the existing swap to another provider. The "noviation" of the swap contract would not change the economics for the City.

[1] Alternate Rate based on a recent Wells Fargo SBPA proposal for a three year facility.

Option A(ii) - Replace DEPFA with Self-liquidity

- The City would replace DEPFA as the SBPA provider and rely on the City's own liquidity position. This option also assumes DEPFA is replaced as swap provider as well.
- Utilizing self-liquidity has two major benefits:
  - The City's Bonds would trade based on the City's rating (AAA/Aaa) and not based on the rating of a third party entity
  - No liquidity premium associated with self-liquidity saving the City $70,000 annually through 2024.
- However, self-liquidity requires a significant amount of the City's fund balance. Fund balance was approximately $28.89 million as of FY 2013.
- PFM has concerns about the rating agencies' view of committing 70% of the City's fund balance to the Bonds.

Option A(iii) - Replace DEPFA with FMSW

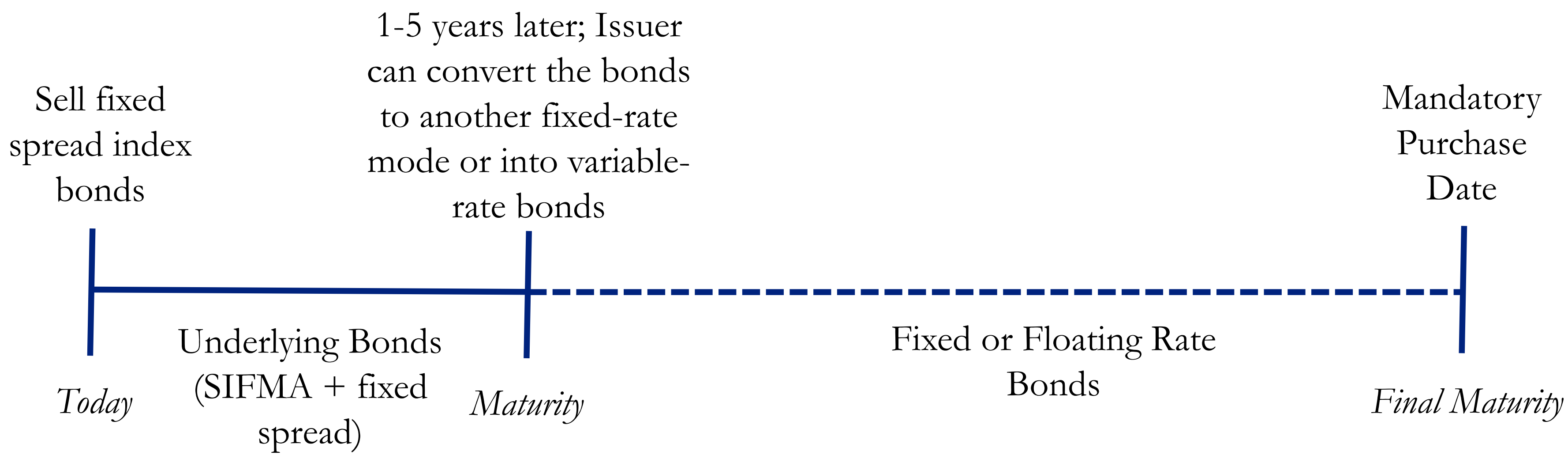
- On May 13, 2014, the German authorities announced the decision to transfer the ownership of Depfa Bank PLC (DEPFA) to the government-owned FMSW (AAA rated) and to wind down DEPFA group's assets.
- The completion of the ownership transfer from the current owner, German state-owned Hypo Real Estate group, is set to occur in the second half of 2014.
- The City may have the opportunity to allow their SBPA and swap to transfer to FMSW and keep the terms the same.
- PFM reached out to several investment banks on this idea. None of the banks were familiar with FMSW and suggested a concern from a marketing perspective.
- This option to transfer to FMSW may not be viable if found unmarketable or if remarketed, the City may be exposed to a higher cost.

Option B - Floating Rate Notes (FRNs)

- FRNs are indexed bonds that are publically offered or privately placed with a bank.
- The bonds trade as a fixed spread to the SIFMA (or LIBOR) index*.
- The bonds can either mature or be subject to a mandatory tender in 1-15 years (though most commonly between 1-8 years) – the longer the period, the higher the fixed spread.
- The only liquidity potential for the City is on the maturity date or the mandatory tender date.
- FRNs would likely carry a term of 3-5 years and require renewing the terms of the FRNs at the end of the initial term.
- FRNs option would require refinancing under new documents as the original documents did not contemplate this type of variable rate debt.

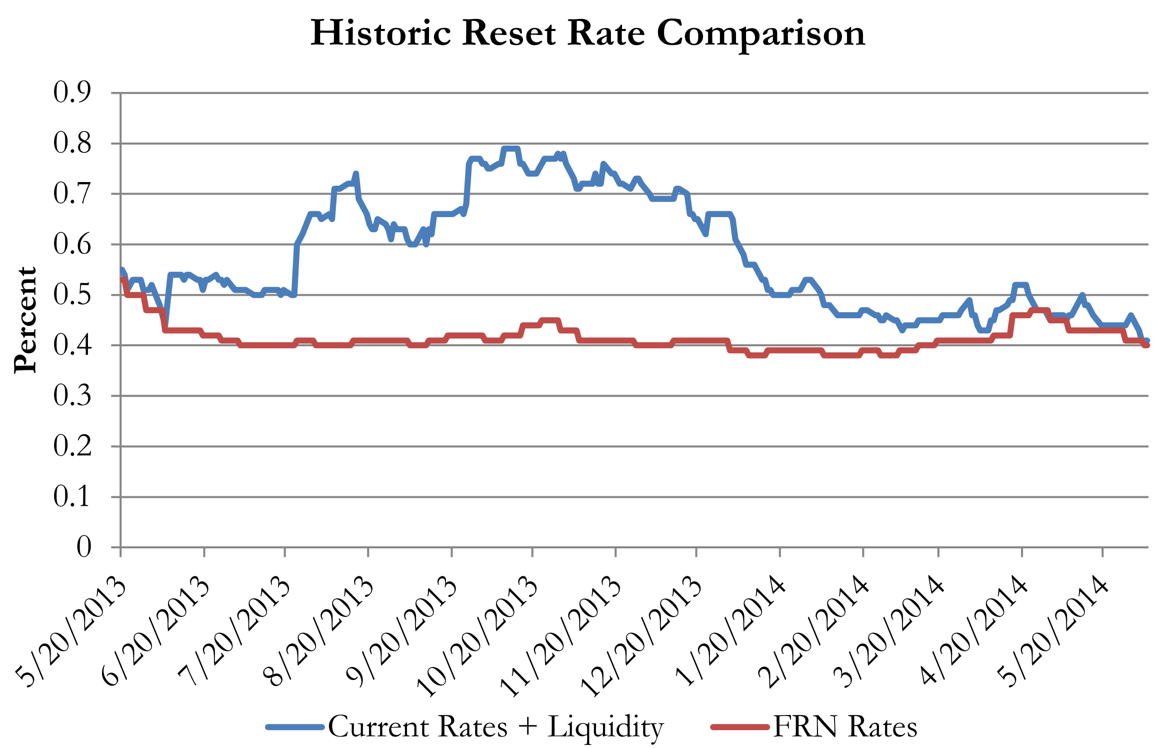
* Reset rates can fluctuate according to index

Option B - Floating Rate Notes (FRNs) Mechanics



Option B - Floating Rate Notes(FRNs) Rates

FRNs have historically reset below the historical variable rate on the Bonds.*



* Assumes FRNs fixed credit spread is 35bps (0.35%) over SIFMA.

Option C - Fixed Rate

- The City would refinance the underlying variable rate debt with fixed rate debt and simultaneously terminate the synthetic fixed rate swap.
- The following are considerations comparative to the variable rate options:

	Variable Rate Options A, B	Fixed Rate Option C
Swap Termination Cost	No	Yes
Exposure to Variable Rate Interest Rates	Yes	No
Future Exposure to Bank Credit/Issuer Credit	Yes	No
Ongoing Ancillary Expenses	Yes	No

Option C - Estimated Fixed Rate Debt Service[1]

Date	Prior Debt Service[2]	Refunding Debt Service[3]	Savings	Present Value to Arb Yield
6/1/2015	718,000	847,917	(129,917)	(115,915)
6/1/2016	718,000	1,017,500	(299,500)	(269,535)
6/1/2017	718,000	1,017,500	(299,500)	(256,888)
6/1/2018	718,000	1,017,500	(299,500)	(244,836)
6/1/2019	718,000	1,017,500	(299,500)	(233,348)
6/1/2020	718,000	1,017,500	(299,500)	(222,400)
6/1/2021	718,000	1,017,500	(299,500)	(211,965)
6/1/2022	718,000	1,017,500	(299,500)	(202,020)
6/1/2023	718,000	1,017,500	(299,500)	(192,541)
6/1/2024	718,000	1,017,500	(299,500)	(183,508)
6/1/2025	1,903,546	2,167,500	(263,954)	(153,778)
6/1/2026	1,911,812	2,165,000	(253,188)	(140,653)
6/1/2027	1,943,508	2,164,750	(221,243)	(116,995)
6/1/2028	1,947,286	2,166,500	(219,214)	(110,652)
6/1/2029	1,949,270	2,165,000	(215,730)	(103,936)
6/1/2030	1,949,459	2,165,250	(215,791)	(99,265)
6/1/2031	1,973,077	2,167,000	(193,923)	(85,037)
6/1/2032	1,968,778	2,165,000	(196,222)	(82,193)
6/1/2033	1,987,909	2,169,250	(181,341)	(72,477)
6/1/2034	2,004,347	2,169,250	(164,903)	(62,898)
6/1/2035	2,018,093	2,165,000	(146,908)	(53,490)
6/1/2036	2,029,146	2,166,500	(137,354)	(47,789)
6/1/2037	2,037,506	2,168,250	(130,744)	(43,489)
Totals	32,803,735	38,169,667	(5,365,932)	(3,305,608)

1) The Amortization and structure of the fixed rate bonds can be modified. Modifications can be the term (final maturity) and principal amortization.

2) Assumes swap rate of 3.59% and does not include liquidity costs or spread over SIFMA.

3) Assumes amortization remains the same with principal maturing in 2025 through 2037. Also includes the termination as a bond expense at $3.1 million.

Arbitrage Yield: The yield on a fixed rate bond issue is the discount rate that, when used in computing the present value as of the issue date of all debt service payments produces an amount equal to the present value, using the same discount rate, of the aggregate issue price of bonds of the issue as of the issue date.

III. Summary of Options and Considerations

Summary of Options

	Option A - SBPA	Option B - FRNs	Option C – Fixed Rate
Commitment Period	Expected at 3 years	3-5 years (possibly longer)	Life of the Bonds
Event of Failed Remarketing	Subject to bank rate and acceleration provisions per SBPA	Hard put/ Maturity: Default Soft put: Penalty Rate	N/A
Exposure to Bank Credit	Yes	No	N/A
Exposure to Issuer's Credit	Cost of SPBA will increase if downgraded	Yes	At the time of issuance only
Renewal Risk	Yes at the end of SBPA term (likely 3 years)	Yes, if in the form of a Private Placement	N/A
Ratings	Short and Long Term	Short Term	Long Term
Swap	Novate to alternate provider	Novate to alternate provider	Terminate and pay termination payment
Documents	Completed under current documents	New documents required	New documents required