



HISTORIC
FRANKLIN
TENNESSEE


08/26/14

ITEM #13
WRKS

MEMORANDUM

August 18, 2014

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator 
Russ Truell, ACA Finance

SUBJECT: Consideration of Engagement of Advisor for Depfa Swap Novation

Purpose

The purpose of this memorandum is to provide the Board of Mayor and Aldermen (BOMA) with information to consider the engagement of a financial advisor to assist in the negotiations with Depfa Bank to novate an existing swap agreement and replace Depfa as standby credit provider for the 2007 Franklin Building Authority bond issue.

Background

The City of Franklin Building Authority issued bonds in 2007 on behalf of the City of Franklin. The bond proceeds were used on several projects, including the new Police Headquarters building and several road projects. The bonds were structured as synthetic fixed rate bonds, with the bonds issued as variable rate bonds and "converted" to a fixed rate regime by entering a swap agreement. Depfa Bank provided the standby credit for the variable rate bonds. Depfa also was the counterparty for the swap agreement.

Because the credit ratings for Depfa Bank have been downgraded from AA to BBB, the City of Franklin believes it can reduce its interest costs by replacing Depfa as the standby credit provider on the variable rate bonds. Additionally, Depfa Bank's role as a counterparty in the swap agreement is in flux, as the liquidity support from the government of Germany and new regulations from the European Central Bank have cast doubt on Depfa's continuation as a free-standing financial enterprise. Those parties that maintain counterparty relationships with Depfa have been encouraged to move to another banking entity related to Depfa. The standing of that bank is not fully known and, as such, presents some risk to the remarketing of the variable rate bonds.

The City of Franklin believes it is in its best interest to move to a more highly rated bank with a future that is more stable and secure for both of the roles mentioned above: that of standby credit provider and swap counterparty.

Public Financial Management (PFM), our financial advisor for debt-related issues, recommends that we engage a swap advisor in order to make the transition from Depfa to a new banking relationship. Engagement of a swap advisor is not only recommended by PFM, but would be required by the State of Tennessee swap guidelines.



The City has requested and received proposals from three independent, well known and highly recommended swap advisors to assist in the process. Those firms are:

Kensington Capital of Charlotte, NC
PFM Swap Advisors (PFMSA) of Philadelphia, PA
Swap Financial Group, of South Orange, NJ

Financial Impact

The cost of the swap advisor will depend on the final direction of the swap conversion. Depending on the negotiations, the advisor may recommend a complete refunding of the issue. More likely, the advisor will recommend novation of the swap agreement. The total cost of the swap advisor will range from \$15,000 to \$35,000, depending on the final decision.

If a novation or refunding is executed, the cost of the advisor will be largely offset by interest savings over the life of the bond issue.

Recommendation

Staff is evaluating the proposals. PFM recommends selection of the swap advisor to allow their participation in the next step of the novation/termination process, which is to meet with the Comptroller's Division of State and Local Finance to obtain their input. The swap advisor proposals include a preliminary "due diligence" phase, followed by the negotiation and document preparation. The due diligence phase is estimated to cost \$5,000 or less and could be authorized under the City Administrator's authority. A resolution for action by the Board would follow at the September meeting once the advisor has presented the results of the research and determined the outline for negotiations.

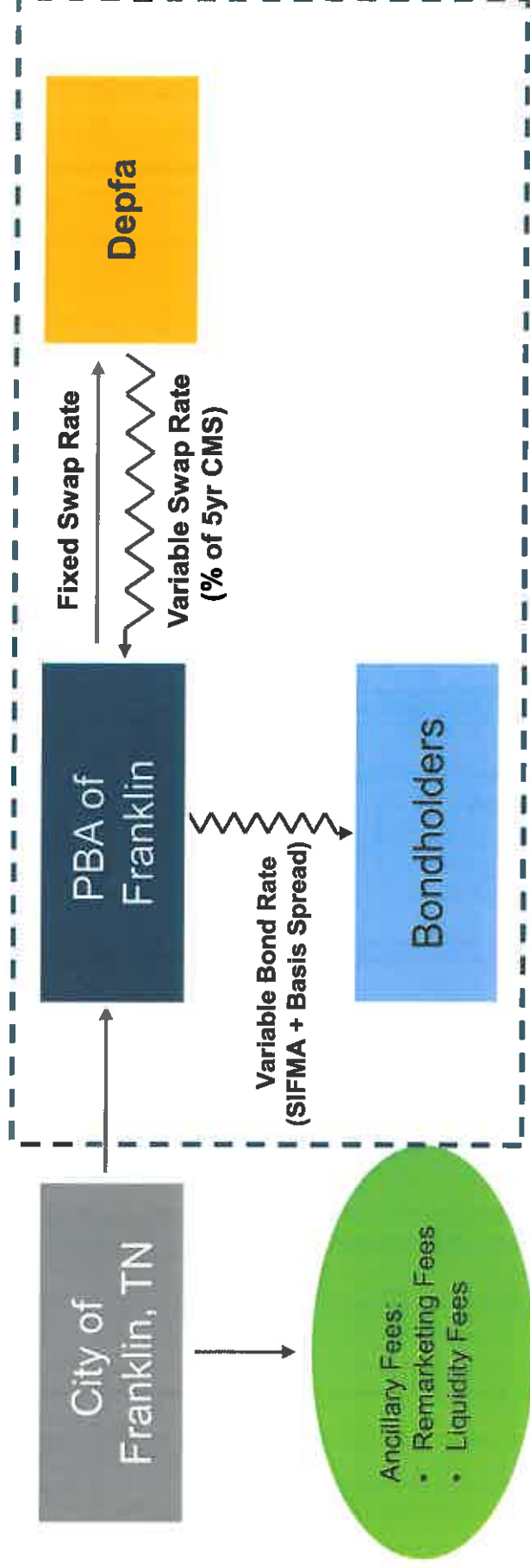
City of Franklin, Tennessee
DEPFA Refunding Options - *Expanded*
August 14, 2014



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Base Case Mechanics



Base Case Economics

Current Economics - Base Case

Bond Year	Series 2007 Principal	Swap Rate	Above Market	Remarketing Fee	SBPA Fee	Int. based on Dep't rating	Standby BPA Premium	Total Debt Service for the 2007 Bonds	Other Fees	Aggregate DS
		3.5900%	0.2600%	0.125%	0.1600%					
6/1/2015	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2016	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2017	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2018	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2019	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2020	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2021	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2022	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2023	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2024	-	718,000	52,000	25,000	32,000	770,000	57,000	827,000		
6/1/2025	1,175,000	718,000	52,000	23,531	30,120	1,945,000	53,651	1,998,651		
6/1/2026	1,225,000	675,818	48,945	22,000	28,160	1,949,763	50,160	1,999,923		
6/1/2027	1,300,000	631,840	45,760	20,375	26,080	1,977,600	46,455	2,024,055		
6/1/2028	1,350,000	585,170	42,380	18,688	23,920	1,977,550	42,608	2,020,158		
6/1/2029	1,400,000	536,705	38,870	16,938	21,680	1,975,575	38,618	2,014,193		
6/1/2030	1,450,000	486,445	35,230	15,125	19,360	1,971,675	34,485	2,006,160		
6/1/2031	1,525,000	434,390	31,460	13,219	16,920	1,990,850	30,139	2,020,989		
6/1/2032	1,575,000	379,643	27,495	11,250	14,400	1,982,138	25,650	2,007,788		
6/1/2033	1,650,000	323,100	23,400	9,188	11,760	1,996,500	20,948	2,017,448		
6/1/2034	1,725,000	263,865	19,110	7,031	9,000	2,007,975	16,031	2,024,006		
6/1/2035	1,800,000	201,938	14,625	4,781	6,120	2,016,563	10,901	2,027,464		
6/1/2036	1,875,000	137,318	9,945	2,438	3,120	2,022,263	5,558	2,027,820		
6/1/2037	1,950,000	70,005	5,070	-	-	2,025,075	-	2,025,075		
	20,000,000	12,624,235	914,290	4,14,563	530,640	33,538,525	945,203	34,483,728		

1) Base Case and Option A do not account for variable rate paid to bond holders or the variable rate receivable on the swap.

2) Assumes Ancillary fees remain the same for the life of the Bonds.

Refinancing Options

A. Replacing DEPFA - Alternate Provider

Option A - 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 (%)	<u>0.26</u>	<u>0.00</u>
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 could also look at the economics of a 5 year term SBPA but at a higher premium (estimated to be 45 bps (0.45%).
- The City would replace DEPFA as the Swap provider by novating the existing swap to another provider. The “novation” of the swap contract would not change the economics for the City.

¹ Based on market research for an alternative SBPA for a three year facility.

Option A - Replacing DEPFA with Alternate Provider continued...

	Option A – Replace Depfa
Swap Termination Cost	N/A
Costs of Issuance Estimates	Yes; Estimated to be approximately \$163,000
Ongoing Ancillary Expenses (per year)	Yes; Estimated to be approximately \$95,000 (remarketing/SBPA)
Timing	Estimated at 8 weeks
Swap Advisor	Needed to novate the swap to alternate provider and included in the Costs of Issuance Estimates
Approval – Office of State and Local Finance	Yes; Associated with the swap novation
Ratings	Yes, Assumes Moody's Short-Term rating is needed
Amortization	Keep as is (2025-2037)

Option A - Replacing DEPFA with Alternate Provider Economics

Option A - Replace DEPFA (novate swap)

Bond Year	Series 2007 Principal	Swap Rate	Above Market	Remarketing Fee	SBPA Fee	Int. based on Depfa rating	Standby BPA Premium	Total Debt Service for the 2007 Bonds	Other Fees 0.48%	Aggregate DS	Best Case Economics
		3.59000%	0.0000%	0.125%	0.35%						
6/1/2015	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2016	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2017	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2018	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2019	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2020	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2021	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2022	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2023	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2024	-	718,000	-	25,000	70,000	-	718,000	95,000	813,000	827,000	
6/1/2025	1,175,000	718,000	-	23,531	65,888	-	1,893,000	89,419	1,982,419	1,998,651	
6/1/2026	1,225,000	675,818	-	22,000	61,600	-	1,900,818	83,600	1,984,418	1,999,923	
6/1/2027	1,300,000	631,840	-	20,375	57,050	-	1,931,840	77,425	2,009,265	2,024,055	
6/1/2028	1,350,000	585,170	-	18,688	52,325	-	1,935,170	71,013	2,006,183	2,020,158	
6/1/2029	1,400,000	536,705	-	16,938	47,425	-	1,936,705	64,363	2,001,068	2,014,193	
6/1/2030	1,450,000	486,445	-	15,125	42,350	-	1,936,445	57,475	1,993,920	2,006,160	
6/1/2031	1,525,000	434,390	-	13,219	37,013	-	1,959,390	50,231	2,009,621	2,020,989	
6/1/2032	1,575,000	379,643	-	11,250	31,500	-	1,954,643	42,750	1,997,393	2,007,788	
6/1/2033	1,650,000	323,100	-	9,188	25,725	-	1,973,100	34,913	2,008,013	2,017,448	
6/1/2034	1,725,000	263,865	-	7,031	19,688	-	1,988,865	26,719	2,015,584	2,024,006	
6/1/2035	1,800,000	201,938	-	4,781	13,388	-	2,001,938	18,169	2,020,106	2,027,464	
6/1/2036	1,875,000	137,318	-	2,438	6,825	-	2,012,318	9,263	2,021,580	2,027,820	
6/1/2037	1,950,000	70,005	-	-	-	-	2,020,005	-	2,020,005	2,025,075	
	20,000,000	12,624,235	-	414,563	1,160,775	-	32,624,235	1,575,338	34,199,573	34,483,728	

1) Base Case and Option A do not account for variable rate paid to bond holders or the variable rate receivable on the swap.

2) Assumes Ancillary fees remain the same for the life of the Bonds.

Option A – Replacing DEPFA with Alternate Provider Costs of Issuance

Option A - Replace Depfa with alternate provider (Novate Swap)		
Role	Provider	Estimated
Underwriter/Remarketing Agent	Raymond James	n/a
Municipal Advisor	PFM	45,000
Bond Counsel	BBS	50,000
Swap Advisor	TBD	20,000
Ratings	Moody's - <i>Short-Term</i>	10,500
Trustee	Regions	n/a
Paying Agent	n/a	n/a
SBPA Counsel	TBD	37,500
Total Estimated Costs of Issuance		163,000
Option A - Ancillary Costs of Issuance (annualized)		
Role	Provider	Estimated
Underwriter/Remarketing Agent	Raymond James	25,000
Standby Bond Purchase Provider	TBD (Yearly premium)	70,000
Total Estimated Yearly Costs of Issuance		95,000

- SBPA premium is based on a 3 year facility.
- We expect Depfa would help cover some of the costs of issuance associated with novation of the swap (Swap Advisor/incremental increase of Bond Counsel, etc.)

Refinancing Options

B. Fixed Rate Refunding (terminate the swap)

Option B - Fixed Rate (terminate swap)

- 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 Option A:

	Option A – Replace Depfa	Option B – Fixed Rate
Swap Termination Cost	N/A	Estimated at \$3.5 million
Costs of Issuance Estimates	Yes; Estimated to be approximately \$163,000	Yes; Estimated to be approximately \$266,500
Ongoing Ancillary Expenses (per year)	Yes; Estimated to be approximately \$95,000	N/A
Timing	Estimated at 8 weeks	Estimated at 6 weeks
Swap Advisor	Needed to novate the swap to alternate provider and included in the Costs of Issuance Estimates	Needed to terminate swap agreement and included in Costs of Issuance Estimates
Approval – Office of State and Local Finance	Yes; Associated with the swap novation	Yes; Associated with a refunding
Ratings	Yes, Assumes Moody's Short-Term rating is needed based on SPBA provider	Yes, Moody's and S&P ratings of City
Amortization	Keep as is (2025-2037)	Adjust per City's preference

Option B - Estimated Fixed Rate Debt Service

Option B (Fixed Rate) Scenarios

Bond Year	Option A - Replace Depth	Option B - Base (2025- 2037)	Option B - Scen 1 (2015- 2034)	Option B - Scen 2 (2015- 2031)	Option B - Scen 3 (LVDS 2015-2037)
6/1/2015	813,000	755,250	734,325	860,838	1,121,638
6/1/2016	813,000	1,007,000	1,154,100	1,406,250	1,500,350
6/1/2017	813,000	1,007,000	1,150,600	1,406,750	1,503,750
6/1/2018	813,000	1,007,000	1,150,350	1,402,200	1,500,900
6/1/2019	813,000	1,007,000	1,154,950	1,402,350	1,502,600
6/1/2020	813,000	1,007,000	1,154,250	1,407,050	1,503,700
6/1/2021	813,000	1,007,000	1,151,450	1,405,850	1,502,700
6/1/2022	813,000	1,007,000	1,153,450	1,403,850	1,500,700
6/1/2023	813,000	1,007,000	1,155,050	1,406,050	1,502,700
6/1/2024	813,000	1,007,000	1,151,250	1,402,250	1,503,500
6/1/2025	1,982,419	2,142,000	2,340,000	2,591,500	1,500,500
6/1/2026	1,984,418	2,145,250	2,343,750	2,594,750	1,500,750
6/1/2027	2,009,265	2,145,500	2,373,750	2,623,250	1,504,000
6/1/2028	2,006,183	2,142,750	2,373,500	2,625,500	1,500,000
6/1/2029	2,001,068	2,147,000	2,369,250	2,622,500	1,504,000
6/1/2030	1,993,920	2,142,750	2,366,000	2,619,250	1,500,500
6/1/2031	2,009,621	2,145,250	2,383,500	2,635,500	1,504,750
6/1/2032	1,997,393	2,144,000	2,375,500	-	1,501,250
6/1/2033	2,008,013	2,144,000	2,393,000	-	1,500,250
6/1/2034	2,015,584	2,145,000	2,404,500	-	1,501,500
6/1/2035	2,020,106	2,141,750	-	-	1,504,750
6/1/2036	2,021,580	2,144,250	-	-	1,504,750
6/1/2037	2,020,005	2,142,000	-	-	1,501,500
	34,199,573	37,689,750	34,832,525	31,815,688	34,171,038
Difference to Option A		3,490,178	632,953	(2,383,885)	(28,535)

- 1) The Amortization and structure of the fixed rate bonds can be modified. Modifications can be the term (final maturity) and principal amortization.
- 2) Option A assumes swap rate of 3.59% + Ancillary fees.
- 3) Assumes Costs of Issuance and UD to be paid out of pocket.
- 4) Includes the termination as a bond expense at \$3.5 million.
- 5) Gross Debt Service Comparison – does not include present value calculation

Option B – Fixed Rate Costs of Issuance/UD

Option A - Replace Depfa with alternate provider (Novate Swap)		
Role	Provider	Estimated
Underwriter/Remarketing Agent	Raymond James	n/a
Municipal Advisor	PFM	45,000
Bond Counsel	BBS	50,000
Swap Advisor	TBD	20,000
Ratings	Moody's - <i>Short-Term</i>	10,500
Trustee	Regions	n/a
Paying Agent	n/a	n/a
SBPA Counsel	TBD	37,500
Total Estimated Costs of Issuance		163,000

Option B - Fixed Rate (Terminate Swap)		
Role	Provider	Estimated
Underwriter/Remarketing Agent	Underwriter- TBD	140,000
Municipal Advisor	PFM	45,000
Bond Counsel	BBS	30,000
Swap Advisor	TBD	10,000
Ratings	SP/Moody's	41,000
Trustee	n/a	n/a
Paying Agent	TBD	500
SBPA Counsel	n/a	n/a
Total Estimated Costs of Issuance		266,500

Next Steps / Schedule

Date	Task
August 6 th	PFM released a RFP for a SBPA provider to replace Depfa.
Week of August 18 th	Discuss Option A with the Office of State and Local Finance.
August 20 th	SBPA proposals due
August 26 th	BOMA meeting – Status update on Option A; Swap Advisor selected either by delegation via Resolution or Professional Services Contract.
August 28 th	Request for Option A (Swap Novation) submitted to the Office of State and Local Finance
September 9 th	BOMA meeting – Authorizing Resolution related to new SBPA provider and swap novation.
End of September	Finalize documents and close