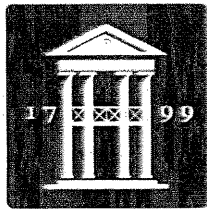


ADMINISTRATION

Russell B. Truell
Assistant City Administrator, CFO
Finance



ITEM 22F
F 04-26-10

John C. Schroer
Mayor of Franklin

Eric S. Stuckey
City Administrator

HISTORIC
FRANKLIN
TENNESSEE

Thursday, April 15, 2010

To: Members of the Budget and Finance Committee

From: Russ Truell, CFO

Subject: **FIVE YEAR TIPS LADDER | 3 MILLION TOTAL, \$600,000.00 ANNUALLY**

The purpose of this memo is to fully disclose the terms and relationships of a Five-Year Treasury Inflation-Protected Securities (TIPS) Ladder to the members of the Budget and Finance Committee prior to initiating the program. The TIPS Ladder is designed to provide for the safety and liquidity of funds designated for OPEB & property/casualty/health funds and will utilize the City of Franklin's Treasury Direct Account operated by the United States Department of the Treasury, Bureau of the Public Debt (<http://www.publicdebt.treas.gov>).

Similar to transactions executed through the State of Tennessee Local Government Investment Pool, purchases of marketable TIPS will not be "executed by delivery vs. payment (DVP)" in the same manner as other government agency bonds described by the City of Franklin Investment Policy (Sec 7.1). TIPS are held in custody by the United States Treasury. Trading activity only generates an account statement which assists in reducing the costs associated with these medium term notes.

The shortest maturity available for TIPS as a newly issued note are is for the term of five (5) years. As required by the City of Franklin Investment Policy, the City of Franklin Finance Department has obtained approval by the Office of the Comptroller (Sec 9.2, paragraph 2). The approval letter has been attached for your convenience.

Treasury Direct charges a one-time flat fee of \$100.00 per year for accounts greater than \$100,000.00. TIPS are purchased at par with a fixed interest rate directly from the Federal Government by means of electronic withdrawal from the operating account. Semi-annual interest payments based on the inflation adjusted principal is electronically deposited into the City of Franklin operating account. At maturity, the security is redeemed at the greater of the inflation-adjusted principal or par amount at original issue (http://www.treasurydirect.gov/instit/statreg/auctreg/auctreg_gsrlist.htm).

A TIPS Ladder will primarily serve to isolate these specific reserve funds from general operating investments. Laddering allocations will provide liquidity and assist in maximizing yield, while the TIPS product will provide additional security against the erosion of the purchasing value of principal due to inflation.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF LOCAL FINANCE
SUITE 1110 414 UNION STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 532-7207 FAX (615) 532-5232

December 21, 2009

Mr. Russell B. Truell
Assistant City Commissioner/CFO
City Hall
109 Third Avenue South
Franklin, TN 37064

Dear Mr. Truell:

This will acknowledge receipt of your letter dated December 17, 2009 requesting approval to invest municipal funds for a period greater than four years in securities guaranteed by the full faith and credit of the United States. Tennessee Code Annotated Title 6, Chapter 56, Part 106 defines eligible investments for cities in Tennessee, and TCA 6-56-106(b) authorizes investments greater than four years if approval is obtained from this office.

You have stated that the City of Franklin wishes to make investments in certain obligations guaranteed as to principal and interest by the United States government having a minimum maturity of five years. You have also stated that these funds represent reserves held for long term Property/Casualty/Health Insurance liabilities and Other Post Employment Benefits (OPEB) obligations.

Tennessee Code Annotated Title 8, Chapter 50, Part 12 permits local governments to establish an investment trust, subject to approval by the State Funding Board, for the purpose of pre-funding other post-employment benefits accrued by employees and also authorizes the investment of monies placed in trust. There is no requirement for approval from this office with regard to investment of these trust funds. The investment authority for these trusts, which is found in TCA 8-50-1203, Sections (2)(A) and (2)(B) states as follows:

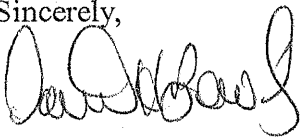
(2)(A) The investment committee of the political subdivision must adopt, in writing, an investment policy authorizing how assets in the trust may be invested. The policy shall not authorize assets in the trust to be invested in any instrument, obligation, security, or property that would not constitute a legal investment for assets of Tennessee domestic life insurance companies;

(2)(B) Notwithstanding subdivision (2)(A), the investment committee of a political subdivision may adopt, in writing, an investment policy authorizing assets in the trust to be

invested and managed in accordance with the investment policy the political subdivision utilizes to manage pension assets; provided, however, that the pension fund management must conform to the Tennessee Uniform Prudent Investor Act of 2002, compiled in title 35, chapter 14.

To the extent that any of the funds you have mentioned in your letter being invested the City of Franklin consist of idle funds as defined in TCA 6-56-106, this constitutes approval by this office for the investment of such funds in obligations guaranteed by the full faith and credit of the United States with a maturity greater than four years.

Sincerely,

A handwritten signature in cursive script, appearing to read "David H. Bowling".

David H. Bowling

DHB:laa