



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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September 29, 2014

Honorable Board of Mayor
and Aldermen of the City of Franklin
109 Third Avenue South
Franklin, TN 37064

Dear Mayor Moore and Aldermen:

This Office received a request on September 10, 2014, from the City of Franklin (the "City") to determine if the novation of the current counterparty in the original interest rate swap agreement (the "SWAP Agreement") for the Series 101-A-1 Loan Agreement, dated January 1, 2007 (the "Loan"), associated with the City's variable interest rate Public Building Authority Local Government Public Improvement Bonds, Series 101-A-1A (the "PBA Bonds") requires a Report of Compliance under the State Funding Board's Guidelines for Interest Rate and Forward Purchase Agreements (the "Guidelines"), effective November 1, 2009 (the "2009 Guidelines"), or if the transaction does not change and remains under the 2002 Guidelines. To continue under the 2002 Guidelines, the City must ensure that it meets all the requirements of those Guidelines including monitoring and financial reporting compliant with Generally Accepted Accounting Principles.

History of the City's SWAP Agreement

The City entered into a swap with Depfa Bank PLC (Depfa) in March 2007 to hedge its exposure to variable interest rate fluctuations associated with the Loan. The swap was originally structured with the City paying a fixed interest rate to a counterparty and in return receiving a percent of an index—one-month LIBOR. This structure closely matched the underlying interest rate of the Loan. Subsequently in December 2008, the City changed the variable index leg of the transaction from a percentage of one-month LIBOR to a percentage of five-year LIBOR (calculated on a constant maturity basis).

Depfa serves as the liquidity provider for the underlying PBA Bonds in its capacity as a Standby Bond Purchase Agreement (the "SBPA") provider. The SBPA expires on June 1, 2019. Depfa had been downgraded to Baa3/BBB/BBB+ during the recent financial crisis. The German government has decided to transfer the ownership of Depfa to the government-owned FMSW (AAA-rated) during the latter part of 2014. This would include the SBPA and current SWAP Agreement.

Proposed Transaction

The City's Financial Advisor, Public Financial Management, Inc. ("PFM") determined through its research and inquiry of several investment banks that the transfer to FMSW of the SBPA could result in increased interest rates on the PBA Bonds because of concerns regarding the ability to remarket bonds with a FMSW

SBPA. The City has decided to replace Depfa as its current SBPA provider with a better know alternate provider. In conjunction with this, the City wishes to replace Depfa as the counterparty to its SWAP Agreement. The City has engaged PFM Swap Advisors LLC as it independent Swap Advisor.

Considerations

The City and its Board, with the help of its Swap Advisor and Financial Advisor, should evaluate all of the risks associated with the proposed novation and determine if it is in best interests of the City.

Determination

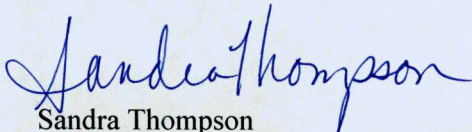
The only term in the SWAP Agreement that will be changed is the counterparty. No other terms of the SWAP Agreement are to be changed. It essentially remains the same. Changing the counterparty does not impact the hedge effectiveness of the transaction.

It is the determination of this office that the City's SWAP Agreement will remain compliant under the 2002 Guidelines if the counterparty is novated. No approval under the 2009 Guidelines is needed to complete the novation.

If the City makes any additional changes to the SWAP Agreement other than a novation of the counterparty including refunding of the underlying debt, the City will need to request a report of compliance under the 2009 Guidelines to continue the current SWAP Agreement

Please notify this Office with the City's decision with regard to this transaction.

Sincerely,

A handwritten signature in blue ink that reads "Sandra Thompson". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Sandra Thompson
Director of the Office of State and Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT
Mr. Russ Truell, CFO, City of Franklin