




September 15, 2014

**TO:** Board of Mayor and Aldermen

**FROM:** Eric S. Stuckey, City Administrator   
Russ Truell, Assistant City Administrator

**SUBJECT:** Discussion of Replacement for Depfa Bank as Standby Credit Provider

**Purpose**

The purpose of this agenda item is to keep the Board aware of the process of replacing Depfa Bank as the credit provider for the 2007 Building Authority bond issue.

**Background**

The Board of Mayor and Aldermen has been presented a series of options regarding the 2007 bond issue. The pending demise of Depfa Bank, announced in May by its ownership, creates a circumstance that requires the City to replace Depfa as credit provider or consider refunding the entire issue.

On behalf of the City, Public Financial Management (PFM) has conducted a procurement process in which financial institutions were allowed to make proposals to substitute for Depfa Bank. After a detailed review of the proposals, PFM is recommending that we consider the proposal from PNC Bank in one of two forms. One form of their proposal offers a Standby Credit Facility, a direct substitution for Depfa, for a three-year period. A second form of their proposal provides, at a slightly higher interest rate, a direct purchase agreement for a period of five years. In the direct purchase arrangement, PNC would buy the bonds for their own account during the term of the agreement. Outright refunding of the issue has been eliminated as a possibility, due to the economics of the interest rate swap.

The next step in the process for replacing Depfa would be for the Board to adopt a resolution at its next meeting, with a closing to follow immediately following approval by the Board. Our bond attorney is drafting the resolution and will have it prepared for review by all parties by September 29.

**Financial Impact**

It is the opinion of PFM and City staff that, with the exception of transaction costs (legal, financial advisory, etc.), there will be little impact on debt service from the transaction.

**Options**

Because the term of the direct purchase arrangement is longer and allows transaction costs to be spread over a longer timeframe, and because bank purchase of the bonds gives additional protection from any potential ratings downgrade that might affect remarketing of the bonds under a Standby Credit agreement, the five-year direct purchase option is recommended.

**Recommendation**

Staff recommends approval of the pending resolution for the Five-Year Direct Purchase agreement with PNC Bank.



**The PFM Group**

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September 11, 2014

Mr. Russell Truell, CFO  
City of Franklin  
109 Third Avenue South, Suite 111  
Franklin, TN 37064

Dear Mr. Truell:

Public Financial Management, Inc. ("PFM"), as Financial Advisor, recently assisted the City of Franklin ("City") with a Request for Proposals ("RFP") process for a liquidity replacement associated with the City's Series 101-A-1 Bonds. It is our pleasure to present this letter summarizing the RFP process and PFM's recommendation to the City.

On August 6, 2014, on behalf of the City, PFM sent out to qualified firms a Request for Proposals (RFP) for replacement of a Standby Bond Purchase Agreement. The RFP was sent to sixteen (16) firms.

#	Firm	Contact	Email
1	Bank of America Merrill Lynch	Tom Boyd	<a href="mailto:thomas.boyd@baml.com">thomas.boyd@baml.com</a>
2	Bank of Tokyo-Mitsubishi UFJ, Ltd.	Nick Boyle	<a href="mailto:nboyle@us.mufig.jp">nboyle@us.mufig.jp</a>
3	BB&T	Craig Bechtel	<a href="mailto:cbechtel@BBandT.com">cbechtel@BBandT.com</a>
		John Harris	<a href="mailto:John.Harris@BBandT.com">John.Harris@BBandT.com</a>
	BMO	Peter Stettler	<a href="mailto:peter.stettler@bmo.com">peter.stettler@bmo.com</a>
4		Lyle McCoy	<a href="mailto:lyle.mccoy@bmo.com">lyle.mccoy@bmo.com</a>
5	BNY Mellon	Diana Castañeda	<a href="mailto:Diana.Castaneda@bnymellon.com">Diana.Castaneda@bnymellon.com</a>
6	Citi	Sara Zare	<a href="mailto:sara.zare@citi.com">sara.zare@citi.com</a>
		T. Davenport	<a href="mailto:tdavenport@comerica.com">tdavenport@comerica.com</a>
7	Comerica	J. Selbach	<a href="mailto:jselbach@comerica.com">jselbach@comerica.com</a>
8	JPMorgan	Rob Porter	<a href="mailto:robert.c.porter@jpmorgan.com">robert.c.porter@jpmorgan.com</a>
9	Mizuho	Bran. A. Raskovic	<a href="mailto:bran.raskovic@mizuhocbus.com">bran.raskovic@mizuhocbus.com</a>
		James E. Cubbon	<a href="mailto:james.cubbon@mizuhocbus.com">james.cubbon@mizuhocbus.com</a>
	MTB	G. Brunner	<a href="mailto:gbrunner@mtb.com">gbrunner@mtb.com</a>
10		L. Eremita	<a href="mailto:leremita@mtb.com">leremita@mtb.com</a>
11	PNC	Jack Sweeney	<a href="mailto:john.sweeney@pnc.com">john.sweeney@pnc.com</a>
12	Raymond James	Rick Dulaney	<a href="mailto:Richard.Dulaney@RaymondJames.com">Richard.Dulaney@RaymondJames.com</a>
13	State Street	Alison Doherty	<a href="mailto:adoherty@statestreet.com">adoherty@statestreet.com</a>
14	Sumitomo Mitsui Banking Corporation	Kin Wong	<a href="mailto:KWong@smbc-lf.com">KWong@smbc-lf.com</a>
15	US Bank	Cameron Parker	<a href="mailto:cameron.parker@usbank.com">cameron.parker@usbank.com</a>
16	Wells Fargo	Ellie Sternberg	<a href="mailto:ellie.sternberg@wellsfargo.com">ellie.sternberg@wellsfargo.com</a>

The deadline for firms to respond to the RFP was August 20, 2014. On August 20, 2014, PFM received five (5) proposals. Although most proposals were solely for Standby Bond Purchase Agreements, a number of firms additionally submitted proposals for Direct Purchase options to the City.

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Because of inclusion of a Direct Purchase, the City and PFM decided to amend the original RFP and request from firms Proposals for Direct Purchase options as well. The Amendment to the RFP was sent to all the firms that responded to the original RFP and active Direct Purchase providers on September 3, 2014 allowing firms to respond by September 8, 2014. By September 8, 2014, five (5) additional firms responded to the Amended RFP for Direct Purchase.

PFM has reviewed the economics associated with all ten (10) proposals with the City and narrowed down the options to PNC and BB&T. PFM then completed a more detailed review of each of these proposals and recommends either PNC's three (3) year Standby Bond Purchase Agreement or PNC's five (5) year Direct Purchase option to the City. PFM's recommendation is based on the most economical option for the City.

We appreciate the opportunity to serve the City and look forward to moving forward with the City on this financing.

Sincerely,

PUBLIC FINANCIAL MANAGEMENT, INC.



Lauren S. Lowe  
Director