

CITY OF FRANKLIN, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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**NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)**

**F. Long-term Debt (Cont.)**

*Contingent Liability*

The City of Franklin entered a standby loan agreement with the City of Franklin Industrial Development Board in December 2005, subsequent to an Industrial Development Board bond issue for \$15 million. The bond issue provided funds to purchase land for the site of the Nissan North America Headquarters project, a 500,000 square feet building on a 50 - acre campus in the McEwen Economic Development District of Franklin. The Development District is a tax-increment financing district, created under Tennessee Law, which is designed to provide funds which will retire the bond issue from property taxes on future development.

At the inception of the project, the Industrial Development Board had approximately two years of debt service escrowed. As of January 2008, this escrow was fully spent and the City of Franklin began, as agreed, to make available short-term loans while the proceeds from the Development District were insufficient to cover the debt service. These loans cannot exceed \$5 million at any time during that period. As of June 30, 2015, expected development in the area is proceeding as projected in the debt repayment plan. Through June 30, 2015, the City has lent \$2,318,709 to the Industrial Development Board under standby loan agreement. This amount will be repaid through future property taxes on the development. The City does not guarantee or have any obligation for the repayment of the bonds.

*Swap Agreements*

The City has two interest rate swap agreements which are considered to be derivative financial instruments under GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." Accordingly, the derivatives are reported in the statement of net position at fair value, and are tested for effectiveness to qualify for hedge accounting.

Both pay-fixed interest rate swap transactions are associated with variable debt. Combining a pay-fixed, receive-variable rate swap with variable debt results in "synthetic" fixed rate debt. The economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time the City created synthetic fixed rate debt, a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

For both swaps, there are two main strategies the City pursued with respect to each transaction. Each swap can achieve one or both of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to when the derivative was put in place. The accumulated changes in fair value, or total fair value of the derivatives are a function of how prevailing interest rates and other market factors affect each transaction at each reporting period. Pursuant to GASB Statement No. 53, each swap transaction is evaluated to determine what type of accounting treatment to apply.