**Tennessee Municipal Bond Fund/**
**Tennessee County Services Loan Program**
**Information Regarding Variable, Fixed Rate**
**and Alternative Loan Programs**

The Tennessee Municipal Bond Fund ("TMBF") and the Tennessee County Services Loan Program ("TCSLP"), were created in 1985 by the Tennessee Municipal League and the Tennessee County Services Association, respectively, in order to help Tennessee cities and counties obtain financing for capital projects at the lowest possible cost. TMBF and TCSLP are non-profit governmental entities. We are currently in our 30th year of service. To date, we have made over 1,400 loans to 200 different cities and 71 different counties in the amount of approximately $4.37 billion. These loans consist of both fixed and variable rate loans through a public building authority or capital outlay note issues, bond anticipation note issues, grant anticipation note issues, refunding bond issues, and other forms of financings issued by cities and counties. By working with a number of service providers and financial institutions, we are able to negotiate lower fees and costs to cities and counties. To date our smallest issue was a $4,500 capital outlay note issue with our largest issue being a $68,000,000 loan through a PBA.

TMBF/TCSLP can assist Tennessee cities and counties in obtaining either variable rate or fixed rate financing to finance public works projects by means of a loan from The Public Building Authority of the City of Clarksville, Tennessee, or The Public Building Authority of the County of Montgomery, Tennessee, (the "PBA"). The PBA issues a bond which is sold to a bank as a private placement. The proceeds would then be loaned to the city or county. Typically, the minimum size of these loans is $1,000,000.

Basically any type of public works project is eligible for one of our programs. Usually the debt is tax-exempt; however, in some cases the debt would be taxable due to the nature of the facilities being financed. We and our bond and tax counsel work with each city and county to help obtain the lowest interest rate and cost of issuance based on the city's or county's financing needs, whether it is tax-exempt or taxable debt.

Below is a summary of our loan programs.

## VARIABLE RATE PROGRAM

The loan bears interest at a variable rate based on SIFMA, which is a weekly rate made up of the average of the five largest remarketing banks - SIFMA stands for Securities Industry and Financial Markets Association - this index was created in response to industry participants' demand for a short-term index which accurately reflected activity in the variable rate demand obligations market.

The purchasing bank adds a spread to the SIFMA rate which is based on the city's or county's long-term debt rating by Moody's or S&P - the administration fee will be 0.15% - the trustee charges a fee for its services - interest and fees are billed monthly.

Loans can be amortized for up to 25 years.

The spread is locked in for a period of five or seven years - the Bank at the end of the five or seven year period can adjust the spread based on current market conditions or opt to get out of the loan – they can either raise, lower, or leave the spread the same - if the city's or county's debt rating changes during the life of the loan, the spread will be changed based upon a pricing schedule in the loan agreement to be effective on the next July 1.

The loan can be prepaid in whole upon 90 days notice with no prepayment penalty.

Additional principal payments may be made during the term of the loan with no prepayment penalty.

The variable rate loans are draw loans – the city or county only pays interest and fees on the funds as they are drawn – the city or county will send in a request for a draw to the trustee by the 25th of each month and the funds will be wired to the city or county on the first business day of each month – the city or county will have 3 years to draw on the loan (longer if the project is still ongoing) – the city or county will be responsible for any arbitrage rebate liability – however, due to the structure of the loan, there should not be any rebate liability.

The total cost of issuance is 0.60% ($6,000 per $1,000,000) – this is an all-inclusive cost of issuance - there are no additional closing costs - the cost of issuance will be paid from the loan proceeds at the time of closing.

The monthly invoice is generated by the trustee around the first of the month - the invoice includes the actual SIFMA rates based on the average of the weekly SIFMA rates for the preceding month plus the bank spread, the administration fee of 0.15%, and the trustee fee - the payment is due to the trustee by the 10th of the month - principal is payable annually in May.

The loan is a general obligation debt of the city or county – however, the loan can be additionally payable from the revenues of a utility system or other revenues sources, if applicable.

## FIXED RATE PROGRAM

The fixed rate can be locked in for a term of either 5 or 7 years – in some cases the rate can be locked in even longer - six months prior to the end of each rate adjustment period, the bank can adjust the rate based on current market conditions – the bank can either raise, lower, or leave the rate the same - the final rate is locked in at the time of the adoption of the resolution or just prior to that time and is good for thirty days.

Loans can be amortized for up to 25 years.

The loan cannot be prepaid in full except on the rate adjustment dates - additional principal payments may be made during the term of the loan with no prepayment penalty subject to certain restrictions.

The loan is a general obligation debt of the city or county - however, the loan can be additionally payable from the revenues of a utility system or other revenues sources, if applicable.

The total cost of issuance is 0.60% ($6,000 per $1,000,000) – this is an all-inclusive cost of issuance - there are no additional fees or expenses associated with the loan such as registration agent/paying agent fees - the cost of issuance will be paid from the loan proceeds at the time of closing.

The fixed rate loan can be structured as a draw loan – the city or county can draw on the loan for a three year period – the city or county will only pay interest and fees on the funds as they are drawn – the city or county will send in a request for a draw to the bank by the 25th of each month and the funds will be wired by the bank to the city or county on the first business day of each month – the city or county will be responsible for any arbitrage rebate liability – however, due to the structure of the loan, there should not be any rebate liability.

However, if the city or county prefers, at the time of the closing of the loan, the city or county can receive the entire loan proceeds, less the cost of issuance amount – the city or county will then be able to invest the proceeds and will be responsible for any arbitrage rebate liability associated with the loan – the city or county will have three years to spend the loan proceeds – the city or county will pay interest on the entire amount from the time of closing.

Principal will be payable annually with interest being payable semiannually – the payment dates can be determined at the time of the closing of the loan.

**Loan Process:**

Typically, either type loan would require the adoption of an initial resolution and loan resolution at either a regular or special meeting of the governing body of the city or county (with the exception of loans for purely school purposes), after publication of a notice of such meeting. We furnish the resolutions and assist in obtaining all necessary approvals, including state and bank approvals. The loan requires the completion of a loan application and credit approval by the bank.

## ALTERNATIVE LOAN PROGRAM

A city or county can issue a fixed rate general obligation or a revenue and tax capital outlay note for a term of up to 12 years under state statutes – the maximum amount of capital outlay note which may be sold by the informal bid process is $2,000,000 – a city or county can also issue grant anticipation notes, tax and revenue anticipation notes, or bond anticipation notes in accordance with applicable state statutes.

The fixed rate on the note issue will be locked in for the entire term of the note issue.

The note cannot be prepaid prior to maturity – however, additional principal payments may be made during the term of the note with no prepayment penalty.

The note issue will be a general obligation debt of the city or county and additionally payable from the revenues of a utility system or other revenues sources, if applicable.

The rate on the note issue is based on the note being bank-qualified under Section 265(b)(3) of the Internal Revenue Code – this means that the city or county cannot issue more than $10,000,000 in tax-exempt debt during the calendar year – the rate is also based on whether the note is tax-exempt or taxable – however, the note can be issued as non bank-qualified or taxable at a slightly higher rate of interest.

The total cost of issuance ranges from $500 up to $2,000 depending on the size of the note issue – this is for bond and tax counsel - this cost may be paid from the note proceeds.

At the time of the closing of the note issue, the city or county will receive the entire proceeds – the city or county will then be able invest the proceeds and will be responsible for any arbitrage rebate liability associated with the note issue – the city or county will have three years to spend the note proceeds – the city or county will pay interest on the entire amount from the time of closing.

Principal will be payable annually with interest being payable semiannually – the payment dates can be determined at the time of the closing of the note issue.

**Note Issuance Process:**

The note issue would require the adoption of a note resolution at either a regular or special meeting of the governing body of the city or county, after publication of a notice of such meeting. We furnish the resolution and assist in obtaining all necessary approvals, including state and bank approvals. The loan requires the completion of a loan application and credit approval by the bank.

TMBF has an experienced staff with many years of service to cities and counties. We provide cities and counties objective and unbiased responses to financing inquiries within applicable state statutes and the various TMBF loan programs. Should a city or county decide to proceed with a loan through one of our programs, a team of professionals will furnish all necessary documents and assist in obtaining all necessary approvals. Our process is usually much simpler and less time consuming than other traditional financing sources. By working with your own organization, you are assured of a level of commitment and expertise unmatched by the private sector.

**FOR ADDITIONAL INFORMATION PLEASE CONTACT:**


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