STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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March 9, 2012

Honorable Carolyn P. Bowers, County Mayor
Montgomery County
P.O. Box 368
Clarksville, TN 37041-0368

Dear Mayor Bowers:

This letter acknowledges receipt of a request on February 27, 2012, to review a plan of refunding (the "Plan") for a maximum amount of $33,000,000 General Obligation Refunding Bonds (the "Refunding Bonds"), assuming the issuance of the General Obligation School & Public Improvement Bonds Series 2005 (the "2005 Bonds") to currently refund by private negotiated sale:

- up to $3,965,000 General Obligation Public Improvement and Refunding Bonds, Series 2001 (the "2001 Bonds"), with a call date of May 1, 2012;
- up to $14,000,000 General Obligation Public Improvement Bonds, Series 2003 (the "2003 Bonds"), with a call date of May 1, 2012;

and to advance refund by private negotiated sale:

- up to $2,700,000 General Obligation School & Public Improvement Bonds Series 2004 (the "2004 Bonds"), with a call date of April 1, 2015; and
- up to $10,100,000 2005 Bonds, with a call date of April 1, 2016.

Collectively, the 2001, 2003 Bonds, 2004 Bonds, and 2005 Bonds are the "Outstanding Bonds." The 2005 Bonds "may or may not" be refunded. The County requests the flexibility to establish the par amount of the bonds based on the market conditions at the time of the sale.

The Outstanding Bonds were issued for the following purposes.

- The 2001 Bonds were issued to:
  - refund General Obligation Public Improvement Bonds, Series 1994, and General Obligation Public Improvement Bonds, Series 1996; and
  - finance schools and related equipment, construction and equipping of a County Health Department and of a County Jail, and construction and equipping of a County Courts Center.

- The 2003 Bonds were issued to:

- finance construction, repair, renovation, and equipping of County school buildings and facilities, improvement of roads and streets, installation of water and sewer facilities, and the construction and equipping of an animal control facility.

- The 2004 Bonds were issued to:
  - finance construction and equipping of schools, construction and equipping of an animal control facility, improvement of roads and streets, and various other capital projects

- The 2005 Bonds were issued to:
  - finance construction and equipping of schools, construction and equipping of an animal control facility, improvement of roads and streets, and constructing and equipping of a veterans nursing home facility.

Pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated* a Plan must be submitted to our Office for review prior to the adoption of a resolution by the governing body of a local government authorizing the issuance of refunding bonds secured, in whole or in part, by the full faith and credit and unlimited taxing power of the County. The information presented in the plan of refunding includes the assertions of the County and may not reflect either current market conditions or market conditions at the time of sale.

County's Proposed Refunding Objective

The Refunding Bonds are being issued for cost savings. The Plan portrays the refunding producing estimated net present value savings of $2,664,300 or 7.67% of the refunded principal of $30,765,000.

Compliance with the County's Debt Management Policy

The County provided a copy of its debt management policy. When the County submits Form CT-0253 within 45 days of issuance of the debt approved in this letter, the County must describe, in specific detail, how the debt issuance complies with the Debt Policy. If a copy of the Policy has already been filed with the Office, the County does not have to resubmit another copy of the Policy if there has been no change since it was originally submitted.

Private negotiated sale

The approval of the Office of State and Local Finance is required when a municipality desires to sell refunding general obligation debt through a negotiated sale process. The County requested approval to sell the Refunding Bonds through negotiated sale.

This letter constitutes approval to negotiate the sale of the Refunding Bonds, conditioned upon the following requirements:

- The bonds are sold with the debt service payment schedule having the same principal repayment schedule as presented in the plan or the principal repayment schedule is accelerated.

- A copy of this letter and the enclosed report shall be provided to all members of the County Commission, be presented at the next meeting of the Board after receipt, and be spread across the face of the minutes of the meeting.

- The County shall comply with all the requirements of Title 9, Chapter 21 of the *Tennessee Code Annotated*.

Report of the Review of a Plan of Refunding

Distribute the enclosed report of the review of this plan of refunding to the members of the County Commission as required by *Tennessee Code Annotated* Section 9-21-903.

This report and the submitted plan of refunding are to be placed on the County's website. The same report is to be provided to each member of the County Commission and reviewed at the Public Meeting at which the proposed refunding bond resolution will be presented.

The enclosed report does not constitute approval or disapproval for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the outstanding obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity.

This letter and the enclosed report do not address the compliance with federal tax regulations and are not to be relied upon for that purpose. The County should discuss these issues with a bond counsel.

This report is effective for a period of one hundred and twenty (120) days. If the refunding has not been completed during this time, a supplemental plan of refunding must be submitted to this Office, at that time we will issue a report thereon pursuant to the statutes. In lieu of submitting a supplemental plan, a statement may be submitted to our Office after the 120-day period has elapsed stating that the information contained in the current plan of refunding remains valid. Such statement must be submitted by either the Chief Executive Officer or the Chief Financial Officer of the local government. We will acknowledge receipt of such statement and will issue our letter confirming that this refunding report remains valid for an additional 120-day period. However, with regard to the report currently being issued by this Office, during the initial 120-day period or any subsequent 120-day period no refunding reports will be issued relating to the debt obligations indicated herein as being refunded unless the Chief Executive Officer or the Chief Financial Officer notifies our Office that the plan of refunding which has been submitted is no longer valid.

We recognize that the information provided in the plan submitted to our Office is based on preliminary analysis and estimates, and that actual results will be determined by market conditions at the time of sale of the debt obligations. However, if it is determined prior to the issuance of these obligations that the actual results will be significantly different from the information provided in the plan which has been submitted, and the local government determines to proceed with the issue, our Office should subsequently be notified by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences, and that the local government was aware of the differences and determined to proceed with the issuance of the debt obligations. Notification to our Office will be necessary only if there is an increase or decrease of greater than fifteen percent (15%) in any of the following: (1) the principal amount of the debt obligations issued; (2) the costs of issuance; (3) the cumulative savings or loss with regard to any refunding proposal. We consider this notification necessary to insure that this Office and officials of the local government are aware of any significant changes that occur with regard to the issuance of the proposed indebtedness.

Public Debt Entity Report

Enclosed is a revised Form CT-0253 - Report on Debt Obligation. The Form CT-0253 must be filed with the governing body of the public entity issuing the Debt not later than forty-five (45) days following the issuance or execution of a debt obligation by or on behalf of any public entity, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance (by email to StateandLocalFinance.PublicDebtForm@cot.tn.gov). No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation.

Sincerely,

Mary-Margaret Collier

Mary-Margaret Collier
Director of the Office of State & Local Finance

Cc: Mr. Jim Arnette, Director of County Audit, COT
Mr. Erinne J. Hester, Director of Accounts & Budgets, Montgomery County
Mr. Austin Peay, Esq., Montgomery County Attorney – Batson Nolan, PLC
Mr. Tom McAnulty, Stephens Inc.
Mr. Charles Wray, Esq., Bass Berry & Sims PLC

Enclosures (2): Report of the Director of the Office of State & Local Finance
State Form CT-0253, Report on Debt Obligation.

REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE CONCERNING THE PROPOSED ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012 MONTGOMERY COUNTY, TENNESSEE

Montgomery County (the "County") submitted a plan of refunding (the "Plan"), as required by *Tennessee Code Annotated* Section 9-21-903 regarding the proposed issuance of a maximum amount of $33,000,000 General Obligation Refunding Bonds (the "Refunding Bonds") to currently refund by private negotiated sale:

- up to $3,965,000 General Obligation Public Improvement and Refunding Bonds, Series 2001 (the "2001 Bonds"), with a call date of May 1, 2012 at par;
- up to $14,000,000 General Obligation Public Improvement Bonds, Series 2003 (the "2003 Bonds"), with a call date of May 1, 2012 at par;

and to advance refund by private negotiated sale:

- up to $2,700,000 General Obligation School & Public Improvement Bonds Series 2004 (the "2004 Bonds"), with a call date of April 1, 2015; and
- up to $10,100,000 General Obligation School & Public Improvement Bonds Series 2005 (the "2005 Bonds"), with a call date of April 1, 2016.

Collectively, the 2001, 2003 Bonds, 2004 Bonds, and 2005 Bonds are the "Outstanding Bonds." The 2005 Bonds "may or may not" be refunded. The County wants flexibility with reference to the market volatility.

The Plan was prepared with the assistance of the County's Underwriter, Stephens Incorporated.

Refunding Analysis

The 2012 Bonds as described in the Plan appear to meet the County's debt management policy (the "Policy") criteria for a refunding for savings, term of refunding, debt service structure and for negotiated sale. The County's Policy permits a refunding for savings if the refunding generates positive net present value savings.

The Plan including the 2005 Bonds assumes that:

- An estimated $33,000,000 of 2012 Bonds will be sold by negotiated sale priced at a premium (see page 1 of the Plan Schedules).
- Estimated net present value savings for the refunding are $2,664,300 or 7.67% of the refunded principal of $30,765,000 (see page 1 of the Plan Schedules).
- The refunding produces total estimated savings of $2,810,406, with approximately $187,360 average annual savings in fiscal years 2012 through 2026 (see page 1 of the Plan Schedules).
- The savings are generated by reducing the average coupon of the Outstanding Bonds from 4.34% to 3.47% for the 2012 Bonds and buy issuing the 2012 Bonds at a premium. The maturity repayment schedule of the 2012 Bonds does not extend beyond that of the Outstanding Bonds (see pages 6 & 22 of the Plan Schedules).
- Total estimated cost of issuance is $259,693 or $7.87 per $1,000 of par amount for the 2012 Bonds. Included in the cost of issuance is an estimated Underwriter's Discount of $189,750 (see page 40 of the Plan Schedules).

The Plan excluding the 2005 Bonds assumes that:

- An estimated $19,760,000 of 2012 Bonds will be sold by negotiated sale priced at a premium (see page 1 of the Plan Schedules).
- Estimated net present value savings for the refunding are $2,125,722 or 10.29% of the refunded principal of $20,665,000 (see page 1 of the Plan Schedules).
- The savings are generated by reducing the average coupon of the Outstanding Bonds from 4.25% to 3.46% for the 2012 Bonds and buy issuing the 2012 Bonds at a premium. The maturity repayment schedule of the 2012 Bonds does not extend beyond that of the Outstanding Bonds (see pages 5A & 10 of the Plan Schedules).
- Total estimated cost of issuance is $171,382 or $8.67 per $1,000 of par amount for the 2012 Bonds. Included in the cost of issuance is an estimated Underwriter's Discount of $113,620 (see page 38 of the Plan Schedules).

We bring to your attention the fact that you do not have a financial advisor in this transaction and that the proposed underwriter in this transaction has previously served as your financial advisor. Financial advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to you. They represent the interests of their firm.

This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the refunded obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity. This report is based on information as presented in the Plan by the County. The assumptions included in the County's Plan may not reflect either current market conditions or market conditions at the time of sale.

This report does not provide broad approval to refund the 2005 Bonds. Should the County decide that the 2005 Bonds will be refunded at a later date, it must submit another request to refund the bonds at that time.

Mary-Margaret Collier

Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: March 9, 2012