

**PUBLIC NOTICE**

**CALL FOR A SPECIAL CALLED MEETING OF THE BLOUNT COUNTY BOARD OF COMMISSIONERS TO BE HELD IN ROOM 433 AT THE BLOUNT COUNTY COURTHOUSE, COURT STREET, MARYVILLE, TENNESSEE, ON FRIDAY, AUGUST 5, 2016, AT 8:00 A.M.**

I, Mayor Ed Mitchell, pursuant to and in accordance with the authority vested in me by Tennessee Code Annotated § 5-5-105, hereby call the Board of County Commissioners of Blount County, Tennessee, for a called meeting to hear a report and presentation from PFM regarding the County's debt and refinancing options on the 5th day of August, 2016, 8:00 A.M.

July 20, 2016

APPROVED:

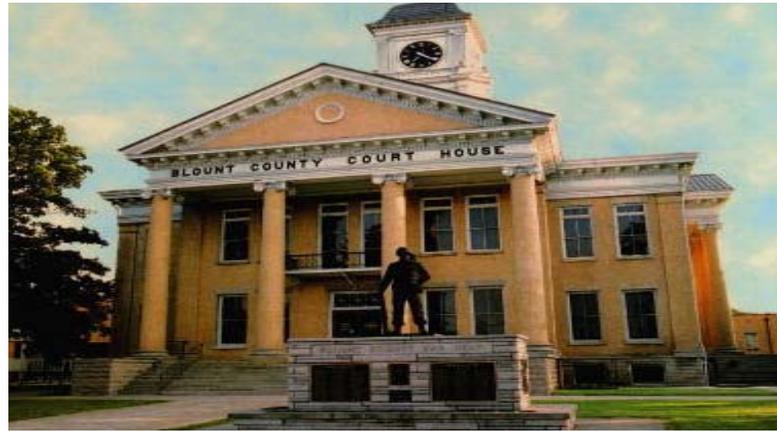
ATTEST:

Jerome Moon  
Commission Chairman

Margaret Flynn  
County Clerk

Ed Mitchell  
County Mayor

# Blount County, Tennessee



## Refinancing and Restructuring Analysis

August 5, 2016



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# Summary of Engagement

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# Summary of Engagement

PFM analyzed the County's debt performance since 2013 and performed a restructuring analysis for the County's outstanding debt portfolio. The purpose of the analysis is to assist the County with the development of refunding and restructuring parameters, the evaluation of refunding efficiencies, and the evaluation of swap termination efficiencies. The County identified several objectives for the analysis including:

- Reducing variable rate exposure to 20% (or as close as feasibly possible) of overall debt as defined in the debt management policy
- Restructuring debt to reduce the amount of variable rate debt remaining after swaps mature
- Creating a more level debt service structure
- Consideration of how Public Chapter 766, Acts of 2014 (Balloon Indebtedness) may impact future refinancings.

# Recap of County's Debt Performance since 2013

- As of June 30, 2013, the County had 48% of variable rate debt outstanding and five (5) interest rate swap agreements. Seven (7) series of bonds were associated with loan agreements with the Public Building Authority (PBA) and required several third party agreements.
- In late 2013, the County successfully removed the need for third party agreements on 2 series of bonds which resulted in annual administrative savings. This debt was placed with US Bank for three (3) years.
- In early 2015, the County refinanced another PBA loan agreement. Such refinancing included terminating the associated interest rate agreement and fully amortizing the principal associated with this debt.
- As of today, the County has 40% of variable rate debt and four (4) interest rate swap agreements. Four (4) series of bonds are associated with loan agreements with the Public Building Authority.

# Deutsche Bank (DB) Downgrade

- DB was downgraded from A3 to Baa1 on 1/25
- DB's downgrade to Baa2 on 5/23 is considered a termination event
- DB had the option to transfer contracts with the County and Hospital to alternate provider within 30 days but did not exercise the option
- Options available to the County and Hospital include:
  1. Transfer contracts to an alternate provider
  2. Terminate contracts with DB at a discount (estimated to be \$500,000 for each the County and Hospital)
  3. Negotiate a lower fixed rate with DB in exchange for removing the minimum rating requirement for DB
  4. Pursue a "market quotation," allowing bids on terminating the contracts wherein all parties will accept the average price

# Considerations for evaluating options

- The County has 7 series of bonds that can be refinanced for interest rate savings (more information included herein)

- Two series of bonds were issued in 2013:

## BMH Series 2013A

- JP Morgan is the note provider which expires in December 2016
- 2 Interest rate swaps with Deutsche Bank

## County Series 2013B

- US Bank is the note provider which expires in December 2016
- 4 Interest rate swaps with Deutsche Bank

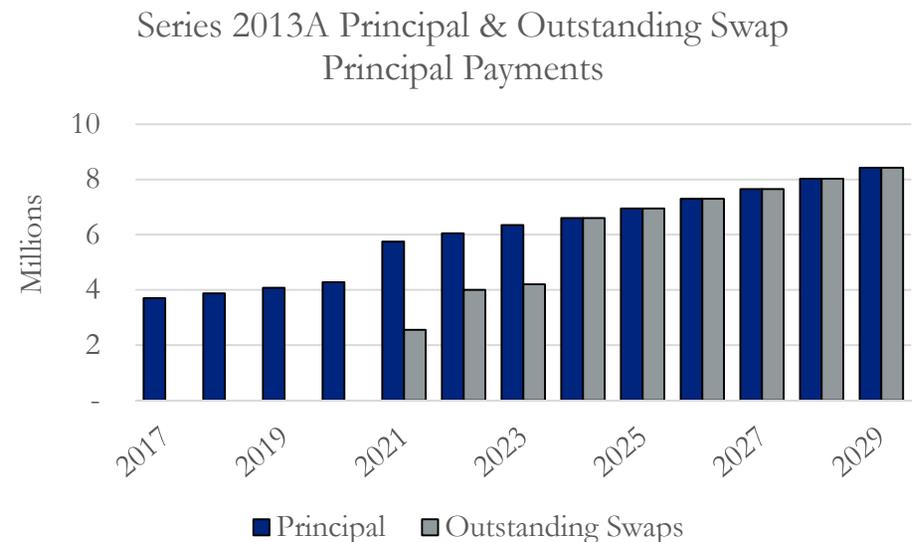
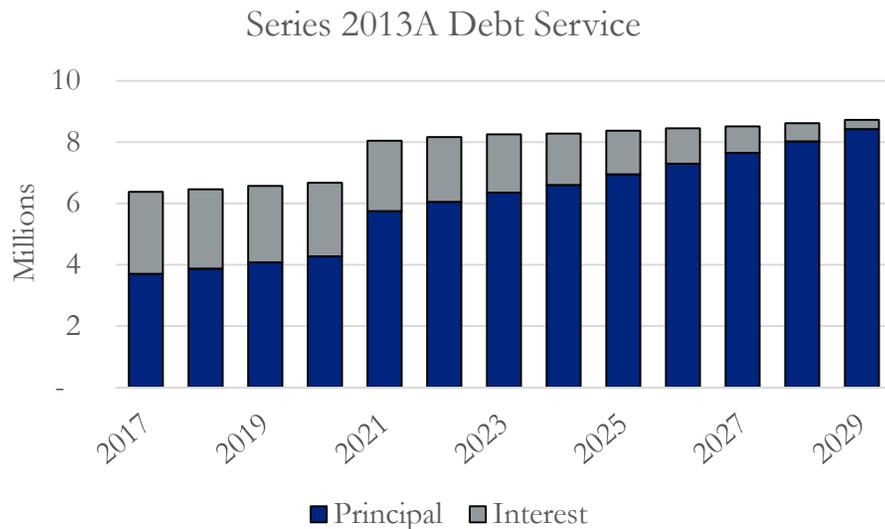


# Blount Memorial Hospital Debt

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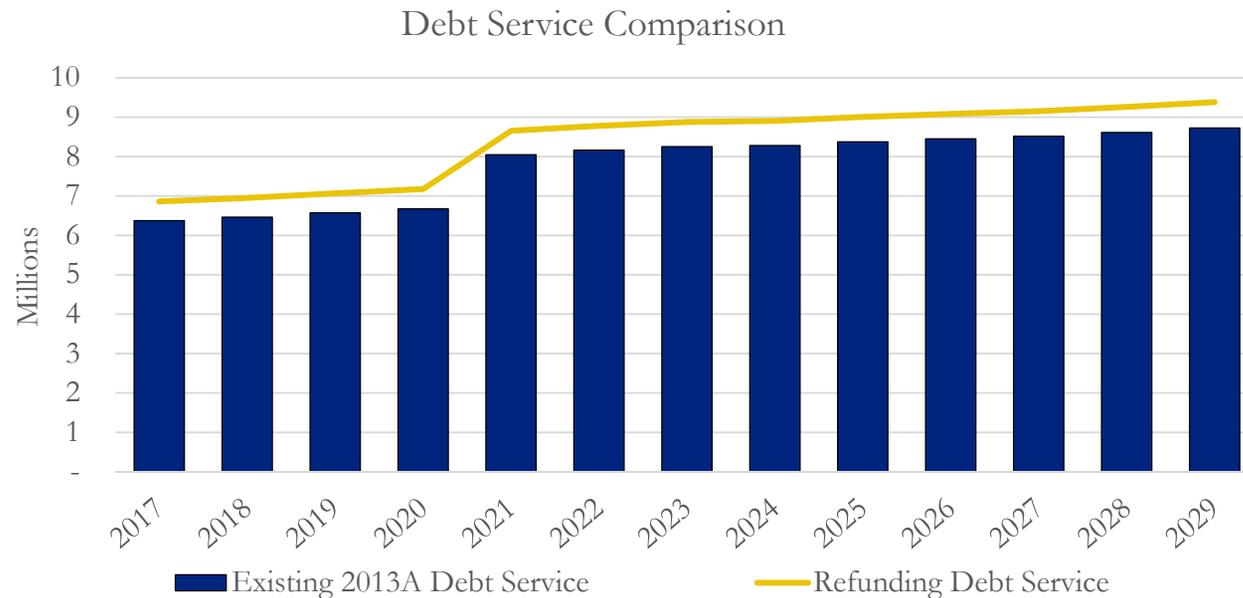
# Blount Memorial Hospital Series 2013A Summary

- The Hospital currently has an outstanding note with JP Morgan of \$79.025 million in variable rate debt
- This debt is associated with two (2) interest rate swaps
  - Currently, the Hospital has \$23 million of exposure to interest rates
  - Variable rate exposure decreases over time until 2024, at which point the debt will be perfectly hedged with the interest rate swaps



# 2013A (BMH) Swap Termination

- This scenario terminates the Hospital's 2 interest rate swaps with a taxable bond proceeds and refunds the variable rate debt with tax-exempt fixed rate debt
  - Results in present value expense of (8.58%) or (\$6.7M)



The transactions of the hospital and the County may involve separate financing partners.

# BMH 2013A Debt Considerations

- Series 2013A is variable rate debt
  - On December 9, 2013, the County/BMH entered into a private placement with JP Morgan for the Series 2013A Bonds
  - The agreement matures in December 2016 at which point the entire outstanding amount is due and payable unless the agreement with JP Morgan is extended or the debt is refinanced
- Series 2013A Interest Rate Swaps
  - Two (2) swaps with Deutsche Bank (DB) (rated Baa2)
- Due to the expense associated with terminating the swaps, the County/BMH are exploring the option of transferring the swaps to a higher rated bank
  - Negotiate with DB to cover the costs associated with transferring the swaps



# Blount County Debt

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# Summary of Outstanding Debt

Series Name	Indenture	Tax Status	Issue Size	Delivery Date	Final Maturity	Outstanding Par	Next Call Date	
Series 2004A	General Obligation Bonds	Tax-Exempt	7,405,000	9/1/04	3/1/19	2,115,000	-	Current
Series 2004B	General Obligation Bonds	Tax-Exempt	5,060,000	10/1/04	4/1/19	1,645,000	-	Current
Series 2005	General Obligation Bonds	Tax-Exempt	14,860,000	1/27/05	4/1/19	4,695,000	-	Current
Series B-10-A	General Obligation Bonds	Taxable Municipal	2,000,000	6/17/06	6/1/21	900,000	-	Current
Series B-16-A	General Obligation Bonds	Tax-Exempt	33,550,000	5/15/08	6/1/37	19,855,000	6/1/2018	Advance
Series B-17-A	General Obligation Bonds	Tax-Exempt	3,000,000	6/20/08	6/1/30	2,315,000	6/1/2018	Advance
Series B-18-A	General Obligation Bonds	Tax-Exempt	4,380,000	3/2/09	6/1/19	2,400,000	-	Non-Callable
Series 2010 QSCB	General Obligation Refunding Bonds	Taxable Municipal	14,855,000	10/7/10	6/30/28	10,374,844	-	Current
Series 2011	General Obligation Refunding Bonds	Tax-Exempt	46,390,000	5/5/11	6/1/30	44,725,000	6/1/2021	Advance
Series 2013B	General Obligation Refunding Bonds	Tax-Exempt	79,800,000	12/9/13	6/1/37	79,435,000	-	Current
Series 2015A	General Obligation Refunding Bonds	Taxable Municipal	7,120,000	3/5/15	6/1/21	5,985,000	-	Non-Callable
Series 2015B	General Obligation Refunding Bonds	Tax-Exempt	19,785,000	3/5/15	6/1/31	19,635,000	6/1/2025	Advance
Total			<u>238,205,000</u>			<u>194,079,844</u>		

As of June 30, 2016

Does Not Include Debt Associated with the Hospital

Highlighted Series Represent Refunding Candidates:

Grey Highlighted Refunding Candidates with Interest Rate Saving Opportunities

Blue Highlighted Candidate is Associated with Variable Rate Debt and Interest Rate Swaps

# County Refunding Candidates

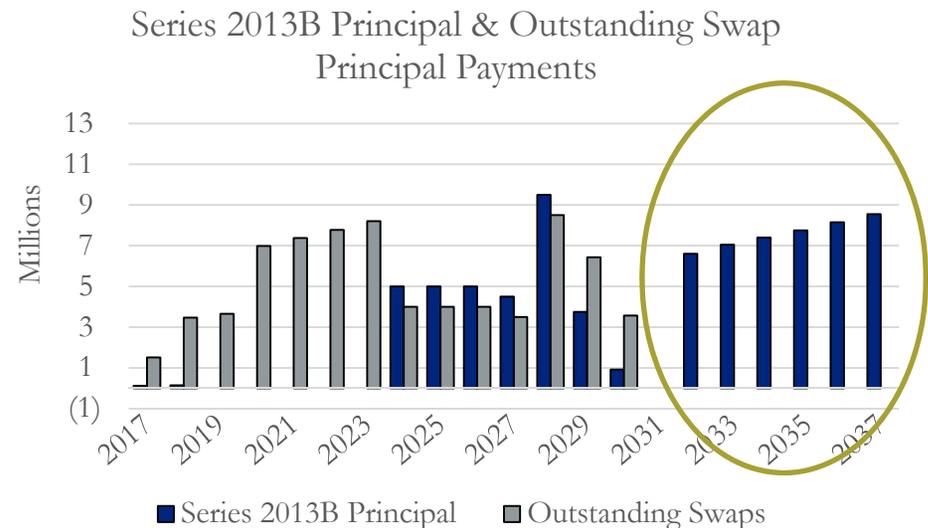
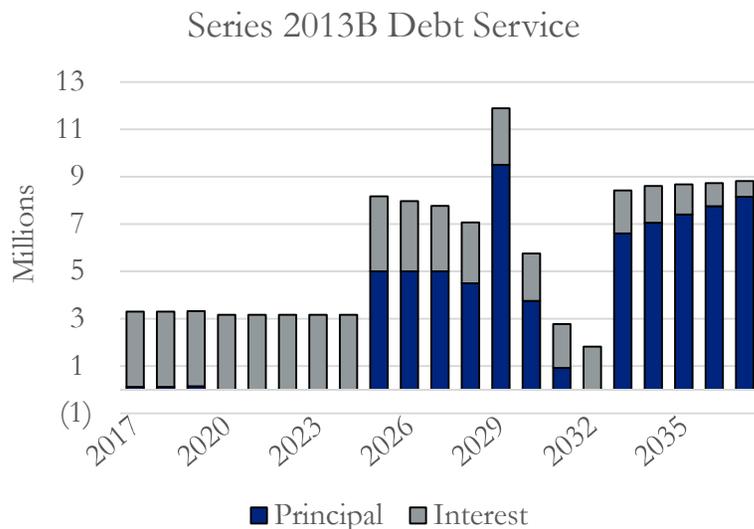
- The County has six (6) tax-exempt and one (1) taxable series of debt that can be refunded for interest rate savings
  - Series 2004A, 2004B, 2005, 2011, B-16-A, B-17-A, B-10-A
- The savings achieved by completing the refunding could offset, though not entirely, the costs associated with terminating the swaps associated with Series 2013B as presented in the scenarios herein
- **The refundings for interest rate savings result in present value savings of 8.2% or \$4.7M**
- **Final maturity occurs in 2037; the debt is not extended**

# 2013B Structure Considerations and Risks

Bullet maturity	Counterparty	Interest Rate	Administrative	Cost
If the County takes no action, there is a large balance due at the conclusion of the agreement with US Bank.	Exposure to swap counterparty and the need to comply with the swap agreements (minimum rating requirements; etc.)	Interest rate movement can affect the benefit of swapped debt and impact the County's cost of capital.	The US Bank Agreement will continue to be short-term in nature and require a subsequent step upon future expiration.	The scenarios may be costly in aggregate or in a particular fiscal year due to the cost of terminating associated swap agreements.

# Blount County 2013B Debt Summary

- Series 2013B is variable rate debt with four (4) swaps associated
  - Market value of the swaps is \$15.2M<sup>1</sup>
  - \$79.4M in variable rate debt outstanding
  - \$45.5M in variable rate debt will remain outstanding after the swaps mature
  - Debt is currently callable with a final maturity of 2037
  - Minimal principal payments until 2024 and the mismatch in principal and swaps introduces interest rate risk
  - When the swaps mature in 2030, the remaining \$45.5M of principal is completely exposed to variable rate interest



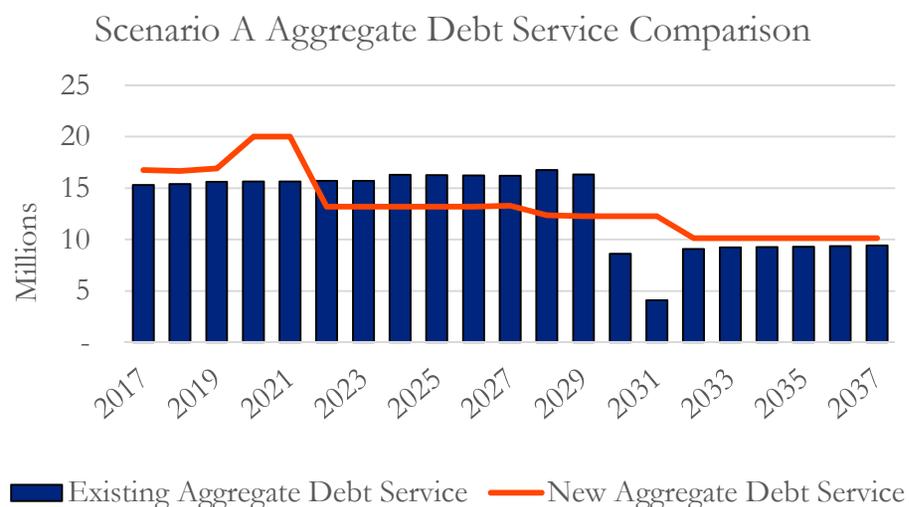
<sup>1</sup> As of July 11, 2016

# Blount County 2013B Debt Summary

- Series 2013B is variable rate debt
  - On December 9, 2013, the County entered into a private placement with US Bank
  - The agreement matures in December 2016 at which point the entire outstanding amount is due and payable unless the agreement with US Bank is extended or the debt is refinanced
- Series 2013B Interest Rate Swaps
  - Four (4) swaps with Deutsche Bank (DB) (rated Baa2)
- Scenarios included herein were developed to address the following:
  - Reduce variable rate debt exposure
  - Reduce exposure to DB
  - Utilize the refinancing for savings to offset costs of terminating the swaps

# Scenario A – Level Refunding Debt Service

- Scenario A refunds every callable maturity (2004A, 2004B, 2005, 2011, 2013B, B-16-A, B-17-A & B-10-A)
  - Series B-18-A, 2015A, 2015B, & the QSCB debt remain outstanding
  - All 4 swaps are terminated with taxable debt; the taxable debt is included in the graphic below<sup>1</sup>
  - Results in present value expense of 2.30% or \$3.2M
  - Reduces near term debt capacity
  - Increases annual debt service through 2021
- Engagement criteria are satisfied
  - All variable rate exposure is eliminated
  - All swaps are terminated



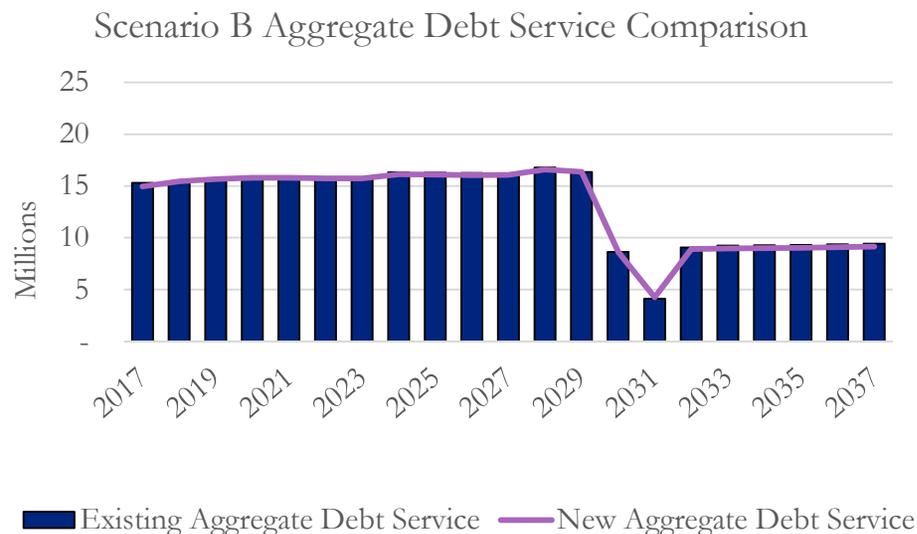
<sup>1</sup> Taxable proceeds fund swap termination payments totaling \$14,769,526.60, which includes the \$500,000 discount

# Scenario B – Refund “Tail” \$39M of Series 2013B

- Scenario B refunds \$39M of variable rate debt
  - The \$39M corresponds to 1 of the swaps which would be terminated<sup>1</sup>
  - 3 swaps with DB would need to be transferred to another provider
  - Requires an extension with US Bank for a smaller note (\$40 M)
  - Results in present value savings of 1.52% or \$1.5M

- Limited Impact on Engagement Criteria

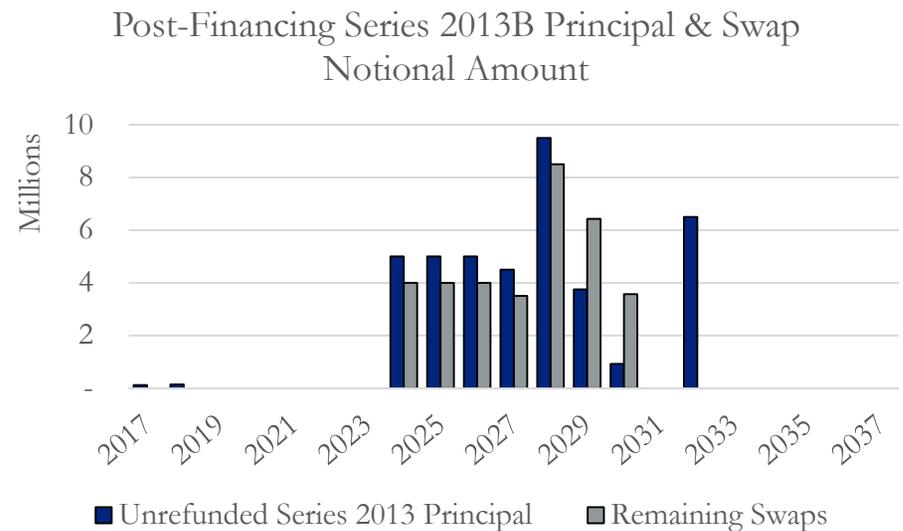
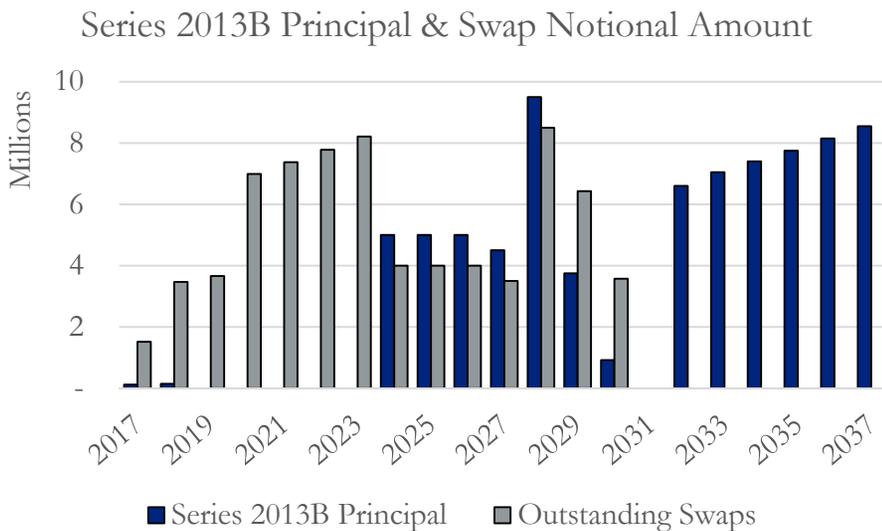
- Variable rate exposure reduced, but not eliminated
- Number of swaps reduced, but not eliminated
- Aggregate debt structure remains virtually unmodified



<sup>1</sup>Taxable proceeds fund swap termination payments totaling \$6,008,193.43

# Scenario B – continued

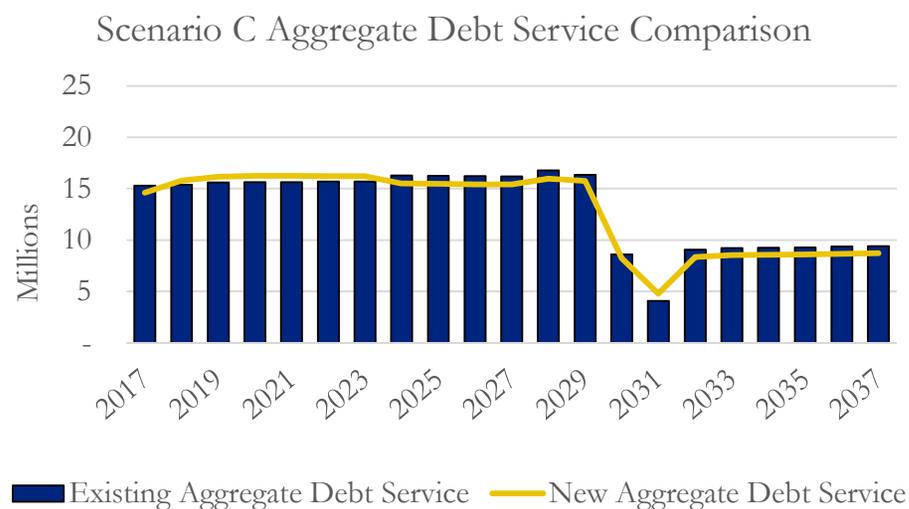
- Engagement criteria are satisfied
  - Eliminates one (1) swap, leaving three (3) outstanding<sup>1</sup>
  - Unhedged variable rate exposure does not exceed \$6.5M



<sup>1</sup> Assumes remaining swaps are transferred to new counterparty

# Scenario C – Minimize Annual Debt Service

- Scenario C refunds every callable maturity (2004A, 2004B, 2005, 2011, 2013B, B-16-A, B-17-A & B-10-A)
  - Series B-18-A, 2015A, 2015B, & the QSCB debt remain outstanding
  - All 4 swaps are terminated with taxable debt; the taxable debt is included in the graphic below<sup>1</sup>
  - Structure assumes use of cash contribution in the amount of \$5.0M
  - Results in present value expense of 0.55% or \$0.76M, net of use of cash
- Engagement criteria are satisfied
  - All variable rate exposure is eliminated
  - All swaps are terminated
  - Aggregate debt structure remains virtually unmodified

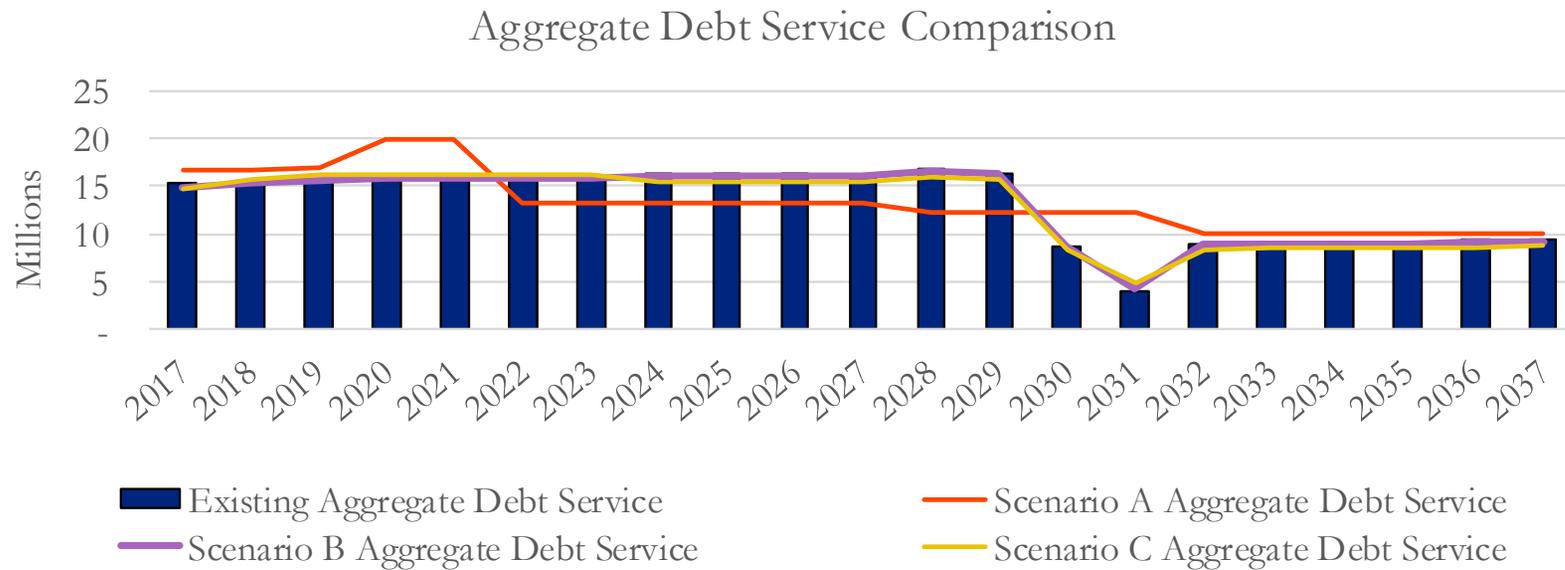


<sup>1</sup> Taxable proceeds fund swap termination payments totaling \$14,769,526.60, which includes the \$500,000 discount

# Summary of Scenarios

	Scenario A	Scenario B	Scenario C
<b>Favorable Outcomes</b>			
Eliminates Bullet Maturity with US Bank	☑		☑
Eliminates 1 or more Swaps	☑	☑	☑
Reduces Variable Rate debt to a manageable level	☑	☑	☑
<b>Non-Favorable Outcomes</b>			
Requires Taxable Debt or <i>Cash Contribution</i>	☒	☒	☒
Requires Note with US Bank to be extended		☒	
Exposure to Unhedged Variable Rate Debt		☒	
Requires 1 or more swaps to be transferred		☒	
Increase in near term annual debt service	☒		

# Summary of Scenarios



# Next Steps

## BMH/County

- Work with JP Morgan on the option to extend the 2013A Note
- Work with possible swap counterparties to transfer the 2 swaps from DB (includes DB negotiations to cover costs)
- Include the State in all steps in order to accomplish an extension and transfer of the swaps

## County

- Discuss each scenario with the State
- Work with DB on termination discount (associated with Scenario C)
- Proceed with necessary approvals for scenario selected (County Commission and State)