



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

March 26, 2018

Honorable Bryan C. Atchley, Mayor,
and Honorable Board of Mayor and Aldermen
City of Sevierville
P.O. Box 5500
Sevierville, TN 37864

Dear Mayor Atchley and Members of the Board:

This letter, report and plan of refunding (the "Plan") are to be published and posted on the website of City of Sevierville (the "City"). Please provide a copy of the Plan to each Alderman for review at the public meeting for the adoption of the refunding bond authorizing resolution.

We acknowledge receipt on March 12, 2018, of a request from the City to review its plan for the issuance of a maximum amount of \$46,500,000 General Obligation Refunding Bonds, Series 2018 (the "Series 2018 Refunding Bonds").

Pursuant to the provisions of Tennessee Code Annotated Title 9 Chapter 21, a plan must be submitted to our office for review. The information presented in the Plan includes the assertions of the City and may not reflect either current market conditions or market conditions at the time of sale.

Compliance with the City's Debt Management Policy

The City provided a copy of its debt management policy and within forty-five (45) days of issuance of the debt approved in this letter is required to submit a Report on Debt Obligation that indicates that this debt complies with its debt policy. If the City amends its policy, please submit the amended policy to this office.

Financial Professionals

The City has indicated that Cumberland Securities Company, Inc. is its municipal advisor. Municipal advisors have a fiduciary responsibility to the City. Underwriters have no fiduciary responsibility to the City. They represent the interests of their firm and are not required to act in the City's best interest without regard to their own or other interests. The Plan was prepared by the City with the assistance of its municipal advisor.

MSRB Rule G-17

MSRB Rule G-17 requires underwriters and municipal advisors to deal fairly with the City in the conduct of its municipal securities or municipal advisory activities. The Securities and Exchange

Commission approved MSRB Notice 2012-25 on the duties of underwriters to issuers of municipal securities on May 4, 2012. On August 2, 2012, this interpretive notice to MSRB Rule G-17 on fair dealing became part of federal securities law and underwriters are required to comply with its provisions.

These duties fall into three areas:

- statements and representations to issuers;
- disclosures to issuers; and
- financial aspects of underwriting transactions.

To learn more about the obligations of the City's underwriter (if applicable) and municipal advisor, please read the information posted on the MSRB website: www.msrb.org.

Report of the Review of a Plan of Refunding

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 City should discuss these issues with a bond counsel.

The enclosed report is effective for a period of ninety (90) days from the date of the report. If the refunding transaction has not been completed during this ninety (90) day period, a new plan of refunding, with new analysis and estimates based on market conditions at that time, must be submitted to this office. We will then issue a report on the new plan for the City Commission to review prior to adopting a new refunding bond authorizing resolution.

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

Required Notification

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. However, if the actual results differ significantly from the information provided in the submitted Plan, the City Commission and our office should be notified after the sale by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences.

Notification will be necessary only if there is a change of ten percent (10%) or more in any of the following:

1. An increase in the principal amount of the debt issued;
2. An increase in costs of issuance; or
3. A decrease in the cumulative savings or increase in the loss.

The notification must include an explanation for any significant differences and the justification for change of ten percent (10%) or more from the amounts in the plan. This notification should be presented to the City Commission and our office with the required filing of the Report on Debt Obligation, Form CT-0253.

Report on Debt Obligation

We are enclosing a Report on Debt Obligation, Form CT-0253. Pursuant to T.C.A. § 9-21-151, this form is to be completed and filed with the governing body of the City no later than forty-five (45) days after the issuance of this debt, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance by mail to the address on this letterhead or 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. A fillable PDF of the form can be found at <http://www.comptroller.tn.gov/sl/pubdebt.asp>.

If you should have questions or need assistance regarding statutory debt issuance requirements, please refer to our online resources available at <http://www.comptroller.tn.gov/sl/> under Local Government Resources, or feel free to contact your financial analyst, Ron Queen, at 615.401.7862 or Ron.Queen@cot.tn.gov.

You may also contact our office by mail at the address in the footer of this letter. Please send it to the attention of your analyst at the Office of State and Local Finance.

Sincerely,



Sandra Thompson

Director of the Office of State and Local Finance

cc: Mr. Jerry Durham, Assistant Director, Division of Local Government Audit
Ms. Jean Suh, Contract Audit Review Manager, Division of Local Government Audit
Mr. Scott Gibson, Cumberland Securities Company, Inc.
Mr. Mark Mamantov, Bass Berry & Sims

Enclosures: Report of the Director of the Office of State and Local Finance
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 2018
CITY OF SEVIERVILLE, TENNESSEE**

The City of Sevierville (the "City") submitted a plan of refunding (the "Plan"), as required by TCA § 9-21-903 regarding the issuance of a maximum \$46,500,000 General Obligation Refunding Bonds, Series 2018 (the "Series 2018 Refunding Bonds").

The Plan was prepared with the assistance of the City's municipal advisor, Cumberland Securities Company, Inc. An evaluation of the preparation, support and underlying assumptions of the Plan has not been performed by this office. This report provides no assurances of the reasonableness of the underlying assumptions. This report must be presented to the governing body prior to the adoption of a refunding bond resolution. The Series 2018 Refunding Bonds may be issued with a structure different from that of the Plan. The City provided a copy of its debt management policy.

The City has indicated that Cumberland Securities Company, Inc. is its municipal advisor. Municipal advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to you. They represent the interests of their firm.

TOURISM DEVELOPMENT ZONE ("TDZ") DEBT

In a letter from our office dated March 7, 2018, we discussed the City's concern that its TDZ (that expires in 2034) is not generating sufficient sales tax revenues to meet all debt service related to qualified public use facility projects, as defined in the Convention Center and Tourism Development Financing Act of 1988, T.C.A. §§ 7-88-101, et seq. (the "Act"). We requested the City develop a repayment plan for the entire outstanding amount of \$145,000,000 TDZ PBA Loans that contains all or part of certain elements listed in the letter. We look forward to receiving the City's preliminary repayment plan for the entire outstanding amount of \$145,000,000 TDZ PBA Loans and response to various concerns expressed in the letter.

TOURISM DEVELOPMENT ZONE ("TDZ") REVENUES

In its letter dated March 13, 2018, the City shared an outline of the plan it is developing as a proposed course of action to address the shortfall in TDZ revenue and the impact on meeting its future debt service obligations which includes the Series 2018 Refunding Bonds, as follows:

1. Reduce the budget by \$1.5 to \$2.0 million.
2. Increase the lodging and amusement taxes to the maximum amount allowed by law. This is estimated to generate approximately \$2.5 million.
3. Increase property taxes.

The City indicated that the Board will need to approve any of these actions and that it anticipates that some or all of these actions will be part of its FY 2019 budget.

CHRONOLOGY

We have provided the following chronology to assist in understanding the timeline, structure, purpose, and costs related to the Series 2006 Loan Agreement and its subsequent refundings.

2006 – Original Issuance

- The City executed the 2006 Loan Agreement with the City of Sevierville PBA (the “2006 Loan Agreement”) in the amount of \$75,000,000 under the terms of a 22-year variable interest rate debt obligation (VRDO).
- The underlying Revenue Bond issued by the PBA was structured as balloon debt with a bullet maturity in the amount of \$75,000,000 due on the final maturity date of June 1, 2028.
- The \$50,000,000 TDZ portion borrowed under the 2006 Loan Agreement was secured by a general obligation pledge (the “GO Pledge”) with an additional pledge of tax increment financing from the TDZ.
 - The proceeds financed developments connected with the City’s Convention Center and Tourism Development Zone (the “TDZ”):
 - water and sewer system extensions and improvements, and
 - golf course.
- The \$25,000,000 portion issued to finance other projects was also secured by a GO Pledge, with an additional pledge of revenues from the projects.

2009 – First Refunding

- The City executed the 2009 Refunding Loan Agreement with the City of Sevierville PBA (the “2009 Refunding Loan Agreement”) in the amount of \$75,000,000 to refund the entire principal amount of 2006 Loan Agreement under the terms of a five-year fixed interest rate loan.
- The underlying Revenue Bond issued by the PBA was structured as balloon debt with a bullet maturity in the amount of \$75,000,000 due on the final maturity date of June 1, 2014.
- The 2009 Refunding Loan Agreement debt service payments were secured by a GO pledge with an additional pledge of tax increment financing from the TDZ.
- The City entered the 2009 Refunding Loan Agreement to mitigate the impact of the failed short-term variable interest rate debt obligation market on the 2006 Loan Agreement.

2014 – Second Refunding

- The City executed two loan agreements with the Public Building Authority of Sevier County to refund the entire principal amount of \$75,000,000 of the 2009 Refunding Loan Agreement prior to its final maturity on June 1, 2014.
- The City executed one of the Refunding Loan Agreements with the Public Building Authority of Sevier County in the amount of \$25,000,000 (the “Series VII-N-1 Loan Agreement”) under the terms of a 14-year variable interest rate loan.
 - The underlying Revenue Bonds issued by the PBA were structured as balloon debt with a five-year put option and a final maturity of June 1, 2018.

- The City executed the other Refunding Loan Agreement with the Public Building Authority of Sevier County in the amount of \$45,305,000 (the “Series VII-O-1 Loan Agreement”) under the terms of a four-year fixed interest rate loan.
 - The underlying Revenue Bond issued by the PBA was structured as balloon debt with a bullet maturity in the amount of \$45,305,000 due on the final maturity date of June 1, 2018.
 - The Series VII-O-1 Loan Agreement’s underlying PBA Revenue Bond was sold at a premium of \$5,000,000 which reduced the principal amount to be issued from \$50,000,000 to \$45,305,000 after payment of costs of issuance and interest.

2018 – Third Refunding

- The City intends to refund the entire principal amount of its Series VII-O-1 Loan Agreement issued in 2014 to meet its \$45,305,000 obligation due on June 1, 2018, with the details of the transaction outlined on page 6 of 7.
- The City is structuring the proposed Series 2018 Refunding Bonds in an approximately level debt structure decreasing the real cost of debt, interest. A level debt amortization or principal structure reduces the real cost of debt compared to a balloon structure.

CUMULATIVE COSTS RELATED TO THE 2006 PBA LOAN AGREEMENT

This is the third refunding of the City’s Loan Agreement with the City of Sevierville Public Building Authority (Sevierville PBA) which was initially funded with the issuance of the Sevierville PBA Local Government Improvement Public Revenue Bonds, Series 2006, dated March 8, 2006 (the “2006 Loan Agreement”). The City pays transaction costs each time it enters into a PBA loan Agreement or issues a general obligation bond.

Interest Costs

The real cost of debt is interest. The 2006 Loan Agreement and subsequent refunding loan agreements were issued with balloon debt structures. In each case, the total amount borrowed was due for repayment on the final maturity date, a structure that maximizes the amount of interest paid by the City. Once the total principal related to the original \$75,000,000 2006 Loan Agreement is retired, the City will have paid approximately \$43,770,069 in interest costs. This interest amount is approximately 58% of the \$75,000,000 borrowed to pay for projects.

Interest costs associated with the 2006 Loan Agreement and the subsequent refundings are:

- 2006 Sevierville PBA Loan Agreement - \$6,861,855
- 2009 Sevierville PBA Loan Agreement - \$16,336,410
- 2014 Sevier County PBA Loan Agreement (Series VII-N-1) - \$3,107,345 (actual and projected)
- 2014 Sevier County PBA Loan Agreement (Series VII-O-1) - \$8,586,109
- 2018 GO Refunding Bonds - \$8,878,350 (projected interest costs)

Costs of Issuance

Table 1 summarizes the costs of issuance associated with the initial 2006 Loan Agreement and subsequent refundings. Costs of issuance were obtained from the Reports on Debt Obligation filed with our office by the City and PBAs.

	Table 1					
	City of Sevierville					
	Series 2006 PBA Loan Agreements and Subsequent Refundings Costs of Issuance					
	\$75,000,000	\$75,000,000	\$25,000,000	\$45,305,000	Proposed \$45,720,000	
	Series 2006	Series 2009	Series VII-N-1	Series VII-O-1	Series 2018	
	City of Sevierville	City of Sevierville	Sevier County	Sevier County	General Obligation	
	PBA Loan Agreement	PBA Loan Agreement	PBA Loan Agreement	PBA Loan Agreement	Refunding Bonds	Total
Underwriter's Disc.	\$ 525,000	\$ 313,750	\$ -	\$ 124,588	\$ 232,305	\$ 1,195,643
XL Bond Insurance	523,996	-	-	-	-	523,996
TN-Loans Prog. Adm.	12,500	100,000	-	-	-	112,500
MA Cumberland Securities Co.	-	-	50,000	122,000	97,500	269,500
Bond Counsel (Robertson Overby)	100,000	-	-	-	-	100,000
Bond Counsel (Bass Berry & Sims)	-	75,000	25,000	50,000	45,000	195,000
Issuer's Counsel (Sharp & Riley PLLC)	-	-	3,500	7,500	-	11,000
Other Counsel	22,500	-	6,000	9,500	-	38,000
Rating Agency	44,150	25,000	-	17,400	28,500	115,050
Trustee Fee (Regions Bank)	-	1,500	1,000	2,000	-	4,500
Other Expenses	7,500	5,000	4,995	9,965	11,695	39,155
Total Cost of Issuance	\$ 1,235,646	\$ 520,250	\$ 90,495	\$ 342,953	\$ 415,000	\$ 2,604,344

Including the projected costs for the Series 2018 GO Refunding Bonds, total costs of issuance paid by the City for the original 2006 Loan Agreement and subsequent refundings will be \$2,604,344.

Recurring Costs

The City has paid recurring costs on three of the PBA loan agreements. Recurring costs were obtained from the Reports on Debt Obligation filed with our office by the City and PBAs. Recurring costs for a liquidity provider and remarketing agent were paid annually for the 2006 Loan Agreement. Information on the TN Loans program administrator costs was not available for the 2006 Loan Agreement. TN Loans program administrator costs were reported for the Sevier County PBA Loan Agreement Series VII-N-1 and Sevier County PBA Loan Agreement Series VII-O-1.

The following amounts of recurring costs will have been paid by the City through the final maturity of the principal related to the 2006 Loan Agreement:

- 2006 Sevierville PBA Loan Agreement - \$450,000
- 2014 Sevier County PBA Loan Agreement Series VII-N-1 - \$1,542,625
- 2014 Sevier County PBA Loan Agreement Series VII-O-1 - \$453,050

Total recurring costs for the life of the debt will be \$2,445,675. Please note that the underlying Sevier County PBA Revenue Bond issued to fund the Series VII-O-1 Sevier County PBA Loan

Agreement was sold at a premium. This reduced the principal amount of the Series VII-O-1 Sevier County PBA Loan Agreement which reduced the recurring costs.

Total Costs

Assuming the City does not refund this debt a fourth time and it repays the debt by the maturity dates for the Series VII-N-1 and Series 2018 Refunding Bonds, it will have incurred the following costs with issuance of the Series 2018 Refunding if paid to maturity.

Table 2
City of Sevierville
Total Cost for the 2006 Loan Agreement

Cost	Amount
Interest Costs	\$ 43,770,069
Costs of Issuance	2,604,334
Recurring Costs	2,445,675
Total Cost	\$ 48,820,078

Table 2 illustrates total costs of \$48,820,078 that the City will have paid to finance \$75,000,000 of TDZ projects.

BALLOON INDEBTEDNESS

The structure of the Series 2018 Refunding Bonds presented in the Plan does not appear to be balloon indebtedness. If the structure is revised, the City should determine if the new structure complies with the requirements of T.C.A. § 9-21-134 concerning balloon indebtedness. If it is determined that the bond structure constitutes balloon indebtedness, the City must submit a Plan of Balloon Indebtedness to the Director of the Office of State and Local Finance for approval prior to the City adopting the resolution authorizing the issuance of the debt.

As part of an overall repayment plan for City's entire outstanding amount of \$145,000,000 TDZ, we have recommended:

- Revisions to the debt management policy to ensure the current and future fiscal soundness of the City, i.e. debt is structured with substantially level or declining debt service (principal and interest).
- The adoption of a balloon debt management plan to eliminate or mitigate current balloon indebtedness.

CITY'S PROPOSED REFUNDING OBJECTIVE

The Series 2018 Refunding Bonds are being issued to meet the City's obligation to repay the single bullet maturity due on June 1, 2018, for its Series VII-O-1 Loan Agreement with the Public Building Authority of Sevier County, dated May 29, 2014 (the "Series VII-O-1 Loan Agreement")

and to amortize the repayment of principal over a ten-year period with a final maturity of June 1, 2028.

PLAN OF REFUNDING

The City intends to current refund an estimated \$45,305,000 Series VII-O-1 Loan Agreement, maturing June 1, 2018, with general obligation refunding bonds structured with a fixed interest rate and an approximately level debt service payment schedule with a final maturity of June 1, 2028.

REFUNDING ANALYSIS

- The City intends to sell \$45,720,000 Series 2018 Refunding Bonds at competitive sale, priced at par.
- The Series 2018 Refunding Bonds will be structured as fixed interest rate bonds with a level debt payment structure.
- The final maturity of the Series 2018 Refunding Bonds extends the final maturity to June 1, 2028, or the original maturity date of the initial 2006 Loan Agreement.
- Additional revenues of approximately \$4,000,000 will be needed each year to cover the annual debt service.
- Estimated costs of issuance for the Series 2018 Refunding Bonds is \$415,000 or \$9.08 per \$1,000 of the par amount. See Table 1 for individual costs of issuance.

Table 3
City of Sevierville
\$45,720,000 Series 2018 General Obligation Refunding Bonds
Costs of Issuance

	Amount	Cost per \$1,000 Bond
Underwriter's Discount *	\$232,305.00	\$ 5.08
Municipal Advisor (Cumberland Securities Company)	97,500.00	2.13
Bond Counsel (Bass Berry & Sims)	45,000.00	0.98
Rating Agency	28,500.00	0.62
Other Expenses	11,695.00	0.26
Total Costs of Issuance	\$415,000.00	\$ 9.08

*TBD by Competitive Bid

This report of the Office of State and Local Finance does not constitute approval or disapproval by the office for the 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 City. The assumptions included in the City's Plan may not reflect either current market conditions or market conditions at the time of sale.

This report is effective for a period of ninety (90) days from the date of the report. If the refunding transaction has not been completed during this ninety (90) day period, a new plan of refunding, with new analysis and estimates based on market conditions at that time, must be submitted to this office.

A handwritten signature in blue ink, reading "Sandra Thompson". The signature is fluid and cursive, with the first name "Sandra" being more prominent than the last name "Thompson".

Sandra Thompson
Director of the Office of State and Local Finance
Date: March 26, 2018