



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

October 7, 2019

Mr. Darren Cardwell, General Manager
and Board of Commissioners
Hallsdale-Powell Utility District
P.O. Box 5199
Knoxville, TN 37929

Dear Mr. Cardwell and Members of the Board:

Our office received a request on October 2, 2019, from the Hallsdale-Powell Utility District, (the "District") for a report on the plan of finance (the "Plan") for the proposed issuance of an estimated \$38,960,000 Waterworks and Sewer Revenue Refunding and Improvement Bonds, Series 2019 (the "Series 2019 Bonds").

The financial information received with the District's Plan includes the assertions of the District and may not reflect the current or future financial condition of the District or reflect either current market conditions or market conditions at the time of sale.

Plan of Finance

The District indicated the purpose of issuing the Series 2019 Bonds is to achieve net present value debt service savings for the refunding portion and to fund improvements to the District.

The District intends to sell \$38,960,000 Series 2019 Bonds, priced at a premium of \$5,595,278 and plans to use the proceeds as follows:

- \$12,092,718 to current refund the following:
 - \$1,070,067 State Revolving Fund Loan Agreement DGA 09-086, maturing through May 1, 2031;
 - \$4,985,913 State Revolving Fund Loan Agreement CGA 09-233, maturing through July 1, 2032;
 - \$1,424,062 Utilities Revenue Improvement Bonds, Series 2013-A (USDA Rural Development Loan Agreement), dated December 10, 2013, and maturing through December 1, 2051; and
 - \$4,612,676 Utilities Revenue Improvement Bonds, Series 2013-B (USDA Rural Development Loan Agreement), dated December 16, 2014, and maturing through December 1, 2052.

- \$32,850,844 to finance capital improvements to the District’s water and sewer system; and
- \$332,780 to pay costs of issuance.

The Authority has requested approval from the Tennessee Local Development Authority (“TLDA”) to issue the Series 2019 Bonds with a senior lien position to its outstanding State Revolving Fund loan agreements. The lien position of the Series 2019 Bonds is dependent on the TLDA’s approval.

Balloon Indebtedness

The structure of the Series 2019 Bonds presented in the Plan does not appear to be balloon indebtedness. If the structure is revised, the District 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 District must submit a Plan of Balloon Indebtedness to the Director of the Office of State and Local Finance for approval prior to the District adopting the resolution authorizing the issuance of the debt.

Financial Information for the Fiscal Year Ended March 31, 2019

For the fiscal year ended March 31, 2019, the District’s audited financial statements reflected operating income of \$8,324,431, and a positive change in net position of \$6,114,030. The District’s statement of cash flows reflected debt service payments of \$8,932,127, consisting of principal payments of \$5,655,148 and interest payments of \$3,276,979.

At March 31, 2019, the District reported \$26,960,720 in unrestricted cash and \$12,734,955 in restricted cash and investments.

Financial Professionals

The District has indicated that Stifel is its financial advisor. Financial advisors have a fiduciary responsibility to the District. Underwriters have no fiduciary responsibility to the District. They represent the interests of their firm and are not required to act in the District’s best interest without regard to their own or other interests. The District prepared the Plan with the assistance of its proposed underwriter Wiley Bros. – Aintree Capital, LLC..

Compliance with the District’s Debt Management Policy

The District provided a copy of its debt management policy, and within forty-five (45) days of issuance of the Debt, must submit a Report on Debt Obligation that indicates that the debt issued complies with the District’s debt policy. If the District amends its policy, please submit the amended policy to our office.

Report for Publication

Pursuant to Tennessee Code Annotated, Title 7, Chapter 82, and Tennessee Code Annotated, Title 9, Chapter 21, prior to the adoption of a resolution authorizing the issuance of utility debt, a plan of finance must be submitted to the Director of the Office of State and Local Finance (the “Director”) for review. The Director then issues a report on the plan (the “Report”).

The Report must be published once during the week following its receipt in a newspaper of general circulation in the counties served by the utility district. Please post this letter, the Report, and submitted Plan on the District’s website.

The enclosed Report does not constitute either the Director’s approval or disapproval of the Plan. 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 District should discuss these issues with a bond counsel or tax attorney.

This report is effective for a period of ninety (90) days. If the finance transaction has not been completed during this time, a new plan of finance, with new analysis and estimates based on market conditions at that time, must be submitted to this office for the Director’s report. We will then issue a report for publication on the new plan for the Board to publish in a newspaper of general circulation in the counties served by the utility district prior to the Board adopting a new bond authorizing resolution.

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 significantly differ from the information provided in the submitted Plan, the Chief Executive Officer or the Chief Financial Officer must notify the District’s governing body and our office 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 District’s governing body and our office with the required filing of the Report on Debt Obligation, Form CT-0253.

Municipal Securities Rulemaking Board (MSRB) – Required Disclosure

Local governments that issue municipal securities on or after February 27, 2019, should be aware that the Securities and Exchange Commission (SEC) adopted amendments to Rule 15c2-12 of the

Securities Exchange Act that require reporting on material financial obligations that could impact an issuer's financial condition or security holder's rights. The amendments add two events to the list of events that must be included in any continuing disclosure agreement that is entered into after the compliance date:

- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

To learn how to report these new disclosures please refer to the MSRB's Electronic Municipal Market Access EMMA® website (emma.msrb.org).

Municipal Securities Rulemaking Board (MSRB) Rule G-17

MSRB Rule G-17 requires underwriters and municipal advisors to deal fairly with the District 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 District's underwriter (if applicable) and municipal advisor, please read the information posted on the MSRB website: www.msrb.org.

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 District 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 SLF.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 on our website at: <https://comptroller.tn.gov/office-functions/state-and-local-finance.html>.

If you should have questions or need assistance, please feel free to contact your financial analyst, Steve Osborne, at 615.747.5343 or Steve.Osborne@cot.tn.gov. You may also contact our office by mail at the address located at the bottom of this page. Please send it to the attention of your analyst at the Office of State and Local Finance.

Sincerely,



Sandra Thompson

Director of State and Local Finance

cc: Ms. Jean Suh, Contract Audit Review Manager, Division of Local Government Audit
Mr. Bryan Huskey, Stifel
Mr. Keener Billups, Wiley Bros. – Aintree Capital, LLC.
Mr. Alex Buchanan, Waller Lansden Dortch & Davis, LLP

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

(Report for Publication)

**REPORT OF THE DIRECTOR
OF THE OFFICE OF STATE AND LOCAL FINANCE
REGARDING THE ISSUANCE BY THE
HALLSDALE-POWELL UTILITY DISTRICT
OF ITS
WATERWORKS AND SEWER REVENUE REFUNDING AND IMPROVEMENT BONDS,
SERIES 2019**

Pursuant to the requirements of T.C.A. § 7-82-501, the Director of the Office of State and Local Finance has reviewed the plan of finance (the “Plan”) prepared by the Hallsdale-Powell Utility District (the “District”) with the assistance of its proposed underwriter, Wiley Bros. – Aintree Capital, LLC., for the proposed issuance of an estimated \$38,960,000 Waterworks and Sewer Revenue Refunding and Improvement Bonds, Series 2019 (the “Series 2019 Bonds”).

Plan of Finance

The District intends to sell \$38,960,000 Series 2019 Bonds priced at a premium of \$5,595,278 and plans to use the proceeds as follows:

- \$12,092,718 to current refund the following:
 - \$1,070,067 State Revolving Fund Loan Agreement DGA 09-086, maturing through May 1, 2031;
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 - \$4,612,676 Utilities Revenue Improvement Bonds, Series 2013-B (USDA Rural Development Loan Agreement), dated December 16, 2014, and maturing through December 1, 2052.

Collectively these are the (“Refunded Bonds and Loan Agreements”). The total amount of refunded principal is \$12,092,718.

- \$32,850,844 to finance capital improvements to the District’s water and sewer system; and
- \$332,780 to pay costs of issuance.

The Authority has requested approval from the Tennessee Local Development Authority (“TLDA”) to issue the Series 2019 Bonds with a senior lien position to its outstanding State Revolving Fund loan agreements. The lien position of the Series 2019 Bonds is dependent on the TLDA’s approval.

District’s Proposed Refunding Objective

The refunding portion of the Series 2019 Bonds is being issued for net present value debt service savings.

Balloon Indebtedness

The structure of the Series 2019 Refunding Bonds presented in the Plan does not appear to be balloon indebtedness. If the structure is revised, the District 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 District must submit a Plan of Balloon Indebtedness to the Director of the Office of State and Local Finance for approval prior to the District adopting the resolution authorizing the issuance of the debt.

Financial Information for the Fiscal Year Ended March 31, 2019

For the fiscal year ended March 31, 2019, the District's audited financial statements reflected operating income of \$8,324,431, and a positive change in net position of \$6,114,030. The District's statement of cash flows reflected debt service payments of \$8,932,127, consisting of principal payments of \$5,655,148 and interest payments of \$3,276,979.

At March 31, 2019, the District reported \$26,960,720 in unrestricted cash and \$12,734,955 in restricted cash and investments.

Analysis

- The results of the transaction assume that the District intends to sell \$38,960,000 Series 2019 Bonds to be offered by negotiated sale and priced at a premium of \$5,595,278.
- Net present value savings is projected to be \$942,823, or 7.8% of the refunded principal amount of \$12,092,718.
- The District plans to contribute \$721,064 from prior debt service reserve funds to fund the transaction.
- The final maturity of the Series 2019 Bonds does not extend beyond the final maturity of the Refunded Bonds and Loan Agreements.
- Estimated costs of issuance are \$332,780 or \$8.54 per \$1,000 of the par amount of the Series 2019 Bonds. See Table 1 for individual costs of issuance.

Table 1
Costs of Issuance

	Amount	Price per \$1,000 Bond
Underwriter (Wiley Bros.)	\$ 175,320.00	\$ 4.50
Financial Advisor (Stifel)	38,960.00	1.00
Bond Counsel (Waller Lansden Dortch & Davis)	40,000.00	1.03
Underwriter Counsel	35,000.00	0.90
Rating Agency	30,000.00	0.77
Other Miscellaneous Costs	13,500.00	0.35
Total Cost of Issuance	<u>\$ 332,780.00</u>	<u>\$ 8.54</u>

The District has indicated that Stifel is its financial advisor. Financial advisors have a fiduciary responsibility to the District. Underwriters have no fiduciary responsibility to the District. They represent the interests of their firm and are not required to act in the District's best interest without regard to their own or other interests. The District prepared the Plan with the assistance of its proposed underwriter Wiley Bros. – Aintree Capital, LLC.

This report of the Office of State and Local Finance does not constitute approval or disapproval by our office for the proposed Plan.

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



Sandra Thompson
Director of State and Local Finance
October 7, 2019