



ComCap Advisors
Municipal Finance Consultants

Date: June 1, 2009

To: Division of Local Finance
1700 James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402

From: Pamela Z. Clary
Archie Willis III
ComCap Advisors,
a division of Community Capital

RE: Draft State Funding Board's Guidelines on Interest Rate and Forward Purchase Agreements

ComCap Advisors, a division of Community Capital, located in Memphis, Tennessee is pleased to provide to the State of Tennessee our comments relating to the aforementioned draft guidelines. We serve as independent financial advisors to state and local governments and quasi-governmental entities in the areas of municipal and affordable housing finance and community development consulting.

We have attached comments to the State's draft document with our comments, requests for clarification and notations for provisions we believe may be onerous or restrictive as well as those provisions we agree with.

Additionally, we would ask that the State Funding Board clarify the definition of "Governmental Entity". Airports, sports and convention center authorities, and local health, education and housing boards (HEHB) will need clarification as to the reporting and monitoring restrictions or if required to follow them at all. For example, if a hospital issues its bonds through a HEHB and enters into an interest rate agreement, does the state consider them subject to these guidelines? Would the HEHB be responsible for monitoring and reporting back to the State? Many conduit borrowers would not have this level of staff but may be able to afford the technical expertise to enter into such agreements. Should the state limit these guidelines to agreements that receive payments from property tax or revenues derived from public utilities only?

Thank you for the opportunity to respond and please feel free to contact us at (901) 543-9866 or e-mail at pclary@community-capital.com or awwillis@community-capital.com if you have any comments or questions concerning our response.

Community Capital Comments for Guidelines for Interest Rate and Forward Purchase Agreement

Page 2, Paragraph 3

Should allow for CFO experience outside of State of Tennessee.

Page 2, Paragraph 6

Suggest information provided should be limited to revenue source affected by the interest rate agreement.

Page 2, Number 4

Suggest test against actual revenue source or based on predetermined level of variable rates (VR) such as state usury or maximum defined rate based on historic VRs over time against budget sources.

Page 3, Number 2

Should more fully define parameters for stress testing.

Page 3, Number 4 and 5

Clarification needed – not clear on exact information requested or rationale (i.e. hedge effectiveness?)

Page 3, Number 7

Usually defined in original agreements and typically will not change unless renegotiation of interest rate agreement.

Page 8, Number 3

Additional time may be necessary. **Five (5) business days** would be too restrictive – Consider replacing with “in a timely manner”.

Page 8, Number 4

May be onerous, time consuming and unnecessary if no material event has occurred.

Page 9, Number 5

Suggest – February 15th at the earliest.

Page 10, Number 3.a.1.

This provision appears to require several entities to police the other. It also requires an outside party to determine if the “Monitor” is qualified, which by definition should already have been determined at employment? Also appears two independent swap advisors will be necessary; this would be very costly.

Page 10, 4.a.1.a. “100 basis points”

May be restrictive.

Page 11, 2. “at least 200 basis points”

May be restrictive.

Page 11, b.1.a. “least 100 basis points”

May be restrictive.

Page 11, b.2. “at least 200 basis points”

May be restrictive.

Page 11, 5.a.

Agree

Page 11, 5.b.

Needs clarification and appears too restrictive – would prevent the governmental body from entering into interest rate agreements at the most advantageous time and yield the most cost effective benefits relative to the then current yield curve.

Page 11, 5.c.

Agree.

Page 11, 5.d.

The termination or market value at the date the transaction is entered into should be \$0.00 after allowance for cost of issuance and/or transaction costs.

Page 12, e.

Clarification.

Page 12, h.

This provision would eliminate the basis for entering into a large portion of interest rate agreements. For example, from a debt management prospective, a portion of a governmental entity's debt can be in VR mode based on preset parameters, such as 20%-30% of all outstanding debt. Entering into a fixed-to-VR swap is not different from normal debt practices within the framework of a sound debt policy.

Page 14, 2nd paragraph “within five (5) business days”

Too restrictive – will need time to find a new substitute Guarantor or Surety.

Page 15, H. “at least weekly valuations of the”

Too restrictive and may be costly – maybe difficult to hold a third party to these restrictions.

Page 15, J.

Agree.

Page 18, H.

Agree.