STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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August 7, 2012

Honorable Lane Curlee, Mayor
City of Tullahoma
Municipal Building
201 West Grundy Street
Tullahoma, TN 37621-1189

Dear Mayor Curlee:

This letter acknowledges receipt on July 26, 2012, of a letter requesting the review of a plan of refunding (the "Plan") for an amount not to exceed $5,000,000 General Obligation School Refunding Bonds, Series 2012 (the "2012 Bonds"), to current refund by negotiated sale, an estimated $4,795,000 of the callable portion of the General Obligation School Bonds, Series 2002 (the "2002 Bonds") and approval to issue the 2012 Bonds by negotiated sale.

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 City. 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. Evaluations of the preparation, support, and underlying assumptions of the Plan have not been performed by this Office. This letter and report provide no assurances of the reasonableness of the underlying assumptions. The report must be presented to the governing body prior to the adoption of a refunding bond resolution.

FINANCIAL PROFESSIONALS

The City is not using a financial advisor. Financial advisors have a fiduciary responsibility to you, the issuer. 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 interest without regard to their own or other interests. The Plan was prepared by the City with the assistance of its proposed underwriter, Stephens Inc.

CITY'S PROPOSED REFUNDING OBJECTIVE

The City is issuing the 2012 Bonds to primarily "restructure the Series 2002 debt so as to smooth out the overall aggregate debt service requirements of the City."

The refunding produces net present value savings of $464,230 or 9.68% of the refunded principal based on its assumptions concerning the transaction.

COMPLIANCE WITH THE CITY'S DEBT MANAGEMENT POLICY

The City previously filed a copy of its debt management policy (the "Policy") with this Office. When the City submits Form CT-0253 within 45 days of issuance of the debt approved in this letter, the City must describe, in specifics, how the debt complies with its Policy.

The City's Policy adopted by the Board of Mayor and Aldermen on December 12, 2011, does not provide guidance for the negotiated sale of refunding bonds nor for extending the maturity of currently outstanding debt with refunding bonds. The City should review and amend its Policy to provide guidance permitting it to issue refunding bonds by negotiated sale and to extend the maturity of outstanding debt with refunding bonds. Please file any amended Policy with this Office after its adoption by the Board of Mayor and Aldermen.

The Board of Mayor and Aldermen should note that back loading of debt can lead to significant demands on revenues in future fiscal years causing financial distress that could force the City to enter into a refunding under less than optimum conditions for savings or forcing the City to find new revenues during times of economic stress.

The State Funding Board's Model Finance Transaction Policies for Public Entities: Debt Management Policies (the "Statement") requires that a Public Entity's Debt Management Policy explicitly permit the extension or deferral of principal payments. The Statement further requires that for each extension or deferral of principal payment the Public Entity has specific justification for the transaction. We do not find such explicit permission and criteria for justification of extension or deferral in the submitted Policy. Further, we do not find the specific justification for this extension in the submitted Plan. The Board of Mayor and Aldermen should amend the City's Policy to meet the requirements of the Statement and take action to indicate the justification for extending the life of the 2002 Bonds through the issuance of the 2012 Bonds.

When the City submits its Form CT-0253, please submit the amended policy and the specific justification for this transaction approved by the Board of Mayor and Aldermen.

The Municipal Securities Rule Making Board (MSRB) has released guidance that may impact the City's Policy and may require amendment of the Policy.

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. MSRB Notice 2012-25 on the duties of underwriters to issuers of municipal securities was approved by the Securities and Exchange Commission 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 the District's underwriter and municipal advisor have to it based on these duties please read the information posted on the MSRB website: www.msrb.org.

REPORT OF THE REVIEW OF A PLAN OF REFUNDING

Enclosed is the report of the review of this plan of refunding required by statute to be distributed to the members of the Board of Mayor and Aldermen prior to adopting a resolution authorizing the issuance of refunding bonds.

This letter, report, and the submitted Plan are to be placed on the City's website.

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.

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 City has requested approval to sell the Refunding Bonds through negotiated sale.

This letter constitutes approval to negotiate the sale of the 2012 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 Board of Mayor and Aldermen, be presented at the next meeting of the Board after receipt, and be spread across the face of the minutes of the meeting.

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

The City has proposed it will use Stephen's Inc. as its underwriter.

This report and negotiated sale are 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 and approval of a negotiated sale 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 and negotiated sale approval 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 or negotiated sale approvals 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.

REPORT ON DEBT OBLIGATION

We are enclosing a revised State Form CT-0253, Report on Debt Obligation. The completion of the revised form is required for all debt sold after December 31, 2011. Pursuant to *Tennessee Code Annotated* Section 9-21-151, this form is to be completed and filed with the governing body of the public entity issuing the debt 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.

Sincerely,

Mary-Margaret Collier

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

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT
Mr. Louis J. Baltz, III, City Administrator of the City of Tullahoma
Ms. Susan B. Wilson, CPA, CMFO, Finance Director of the City of Tullahoma
Mr. Randall Morrison, Esq., City Attorney of the City of Tullahoma
Mr. Larry Brown, Stephens Inc.
Ms. Karen Neal, Esq., Bass Berry & Sims
Ms. Lillian Blackshear, Esq., Bass Berry & Sims

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
CITY OF TULLAHOMA, TENNESSEE
CONCERNING THE PROPOSED ISSUANCE OF ITS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012

The City of Tullahoma (the "City") submitted a plan of refunding (the "Plan") to this Office, pursuant to Section 9-21-903 Tennessee Code Annotated for the issuance of an amount not to exceed $5,000,000 General Obligation Refunding Bonds, Series 2012 (the "2012 Bonds") (see Refunding Request Letter page 1) , to current refund an estimated $4,795,000 of the callable portion of the General Obligation School Bonds, Series 2002 (the "2002 Bonds") (see Refunding Request Letter page 1).

The City anticipates calling the 2002 Bonds on November 1, 2012 at par plus accrued interest (see Refunding Schedules page 6). The Plan was prepared with the assistance of the City's proposed underwriter, Stephens Inc.

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. Evaluations of the preparation, support, and underlying assumptions of the Plan have not been performed by this Office. This report provides no assurance of the reasonableness of the underlying assumptions.

City's Proposed Refunding Objective

The City is issuing the 2012 Bonds to

> ...restructure the Series 2002 debt so as to smooth out the overall aggregate debt service requirements of the City. At the present time, the City's overall aggregate debt service requirements are fairly level at approximately $3,800,000 to $4,000,000 for FY 2013 through FY 2017. However, under the current structure, overall aggregate debt service requirements are scheduled to increase sharply to approximately $4,700,000 in FY 2018. The City wishes to take advantage of current low interest rates and favorable market conditions to extend the final maturity of the Series 2002 debt by three years from 10/01/2017 to 10/01/2020, increasing the average life of the debt from approximately 3.5 years to approximately 4.8 years and restructuring the principal payments of the proposed Refunding Bonds in a manner which would produce approximately level overall aggregate debt service requirements of approximately $3,600,000 to $3,700,000 for FY 2014 through FY 2021.

Compliance with the City's Debt Management Policy

The City previously filed a copy of its debt management policy (the "Policy") with this Office. When the City submits Form CT-0253 within 45 days of issuance of the debt approved in this letter, the City must describe, in specifics, how the debt complies with its Policy.

The City's Policy adopted by the Board of Mayor and Aldermen on December 12, 2011, does not provide guidance for the negotiated sale of refunding bonds nor for extending the maturity of currently outstanding debt with refunding bonds. The City should review and amend its Policy to provide guidance permitting it to issue refunding bonds by negotiated sale and to extend the maturity of outstanding debt with refunding bonds. Please file any amended Policy with this Office after its adoption by the Board of Mayor and Aldermen.

The Board of Mayor and Aldermen should note that back loading of debt can lead to significant demands on revenues in future fiscal years causing financial distress that could force the City to enter into a refunding under less than optimum conditions for savings or forcing the City to find new revenues during times of economic stress.

The State Funding Board's Model Finance Transaction Policies for Public Entities: Debt Management Policies (the "Statement") requires that a Public Entity's Debt Management Policy explicitly permit the extension or deferral of principal payments. The Statement further requires that for each extension or deferral of principal payment the Public Entity has specific justification for the transaction. We do not find such explicit permission and criteria for justification of extension or deferral in the submitted Policy. Further, we do not find the specific justification for this extension in the

submitted Plan. The Board of Mayor and Aldermen should amend the City's Policy to meet the requirements of the Statement and take action to indicate the justification for extending the life of the 2002 Bonds through the issuance of the 2012 Bonds.

When the City submits its Form CT-0253, please submit the amended policy and the specific justification for this transaction approved by the Board of Mayor and Aldermen.

The Municipal Securities Rule Making Board (MSRB) has released guidance that may impact the City's Policy and may require amendment of the Policy.

Refunding Analysis

- The results for the refunding are based on the assumption that $4,735,000 of 2012 Bonds will be sold by negotiated sale priced with a premium of $145,273 (see Refunding Request Letter page 2 and Refunding Schedules page 9) to current refund an estimated $4,795,000 of the 2002 Bonds.
- Estimated net present value savings for the refunding are $464,230 or 9.68% of the principal amount of the 2002 Bonds (see Refunding Schedules page 5).
- The estimated savings are generated by assuming the average coupon of the Refunded Obligations is 4.66% and assuming an average coupon of 1.99% for the 2012 Bonds (see Refunding Schedules page 3 and 4).
- Interest payments are reduced from $785,345 for the 2002 Bonds to $448,346 for the 2012 Bonds, saving the City approximately $336,999 (see Before and After Refunding Schedule).
- The proposed refunding extends the final maturity of the debt from October 1, 2017 to October 1, 2021, and restructures principal payments. Table 1 illustrates the restructuring principal payments and its impact (see Before and After Refunding Schedule).

Table 1

Comparison of 2012 Bonds and 2002 Bonds
Principal Payments

Fiscal Year	2002 Bonds	2012 Bonds	Increase/ (Decrease)
2013	$ -	$ -	$ -
2014	490,000.00	310,000.00	(180,000.00)
2015	575,000.00	325,000.00	(250,000.00)
2016	1,090,000.00	1,000,000.00	(90,000.00)
2017	1,260,000.00	1,000,000.00	(260,000.00)
2018	1,380,000.00	375,000.00	(1,005,000.00)
2019	-	150,000.00	150,000.00
2020	-	750,000.00	750,000.00
2021	-	825,000.00	825,000.00
	$ 4,795,000.00	$4,735,000.00	

Note: The life of the 2012 Bonds is three years longer than the 2002 Bonds.

- The impact of this restructuring is to reduce debt service in fiscal years 2013 through 2018 and create approximately level debt service in fiscal years 2014 through 2021 for the City's GO Debt Portfolio.

Table 2

Comparison of Tullahoma GO Debt Portfolio

Before and After Issuance of 2012 Bonds

Fiscal Year	Before Refunding	After Refunding	Increase/ (Decrease)
2013	3,905,197.00	3,839,844.00	(65,353.00)
2014	3,961,629.00	3,660,417.00	(301,212.00)
2015	4,024,815.00	3,672,132.00	(352,683.00)
2016	3,803,687.00	3,636,707.00	(166,980.00)
2017	3,916,025.00	3,614,185.00	(301,840.00)
2018	4,660,612.00	3,661,432.00	(999,180.00)
2019	3,461,754.00	3,644,754.00	183,000.00
2020	2,870,727.00	3,644,727.00	774,000.00
2021	2,817,201.00	3,650,451.00	833,250.00
	33,421,647.00	33,024,649.00	

The 2002 Bonds were back loaded creating high debt service payments in 2017 and 2018. Sixty-three (63%) of the principal for the 2002 Bonds was structured to be repaid in the last three years of its life. The cost to cure these irregular payments and smooth annual debt service in fiscal years 2014 through 2019 is increasing annual debt service by 5% in 2019, by 27% in 2020, and by 30% in 2021.

Note that the reduction in principal repayment in fiscal year 2018 is $999,180. This restructuring appears to meet the goal of smoothing out annual debt service payments. The cost of this smoothing is shifting $1,725,000 in principal payments from fiscal years 2014 through 2018 to fiscal years 2019 through 2021 significantly increasing annual debt service in those years. (see Before and After Refunding Schedule)

- The estimated cost of issuance of the 2012 Bonds is $65,630 or $13.86 per $1,000 par amount of the 2012 Bonds. (see Refunding Schedules Revised pages 7 and 8 and further details of the cost of issuance on page 2 and 3 of the Request Letter). Table 3 provides a break out of the estimated cost of issuance.

Table 3

Costs of issuance

Cost	Amount	Cost per $1,000 Par Value of Bonds
Underwriter's Discount (0.80%) - Stephens Inc.	$ 37,880.00	$ 8.00
Underwriter' Expenses - Stephens Inc.	1,500.00	0.32
POS/Official Statement - Stephens Inc.	4,000.00	0.84
Miscellaneous - Stephens Inc.	1,000.00	0.21
Bond Counsel (Bass Beery & Sims)	11,000.00	2.32
Paying Agent Initial Acceptance Fee	500.00	0.11
Escrow Fees	250.00	0.05
Rating Agency Fee	9,500.00	2.01
Total Costs	$ 65,630.00	$ 13.86

The submitted Plan should be provided to the Board of Mayor and Aldermen as part of the review of the Plan for full details of costs of issuance and other details of interest.

The City is not using a financial advisor. The City intends to issue the 2012 Bonds by negotiated sale and plans to use Stephens Inc. as its underwriter. Financial advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to the City and are not required to act in the City's interest without regard to their own or other interests. They represent the interests of their firm and their investors. The City should perform adequate research to assure itself that the bonds are priced fairly in the capital market.

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 Bonds 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. An evaluation of the preparation, support, and underlying assumptions of the Plan has not been performed by this Office. This letter and report provide no assurances of the reasonableness of the underlying assumptions.

This report applies only to the transaction described. Should the City decide to refund less than $4,795,000 of the Refunded Bonds and to refund the remainder later, it must submit another request for a report to refund the bonds at that time.

Mary-Margaret Collier

Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: August 7, 2012