



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986

June 6, 2012

Mr. Bennie Oldham
Castalian Springs-Bethpage Water Utility District
3501-A Hwy 31 E
Bethpage, TN 37022

Dear Mr. Oldham:

This Office received a request on May 25, 2012 from Castalian Springs-Bethpage Water Utility District (the "District"), for a report on the proposed issuance of a maximum \$2,300,000 Castalian Springs-Bethpage Utility District Waterworks Revenue Refunding and Improvements Bonds, Series 2012 (the "2012 Bonds") to current refund approximately:

- \$186,922 Waterworks Revenue Bonds, Series 1981 (the "1981 Bonds");
- \$473,731 Waterworks Revenue Bonds, Series 1995 (the "1995 Bonds");
- \$282,907 Waterworks Revenue Bonds, Series 1998 (the "1998 Bonds");
- \$1,138,486 Waterworks Revenue Bonds, Series 2004 (the "2004 Bonds"); and
- provide approximately \$79,171 to pay costs of issuance.

The 1981 Bonds, 1995 Bonds, 1998 Bonds, and 2004 Bonds are collectively the "Refunded Bonds." The District plans to negotiate the sale of the 2012 Bonds.

The purpose of the 2012 Bonds is for debt service savings. The proposed refunding estimates net present value savings of \$162,786 or 7.82% of the refunded principal of \$2,082,046.

The financial information received with the District's proposed plan of issuance 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.

The District has reported Wiley Bros. as its underwriter and TUA as 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.

Compliance with the District's Debt Management Policy

The District provided a copy of its debt management policy (the "Policy"). When the District submits Form CT-0253 within 45 days of issuance of the debt approved in this letter, the District must describe, in specifics, how its debt issue complies with its Policy. If the current version of the Policy has already been filed with the Office, the District does not have to resubmit a copy of its Policy unless it has been amended.

Financial Analysis

For the fiscal year ending August 31, 2011, the District's operating income was -\$72,154 from revenues of \$1,865,047. Operating income should at least equal a utility's debt service; (principal and interest payment). Debt service payments for the year ending August 31, 2011, were \$179,422 consisting of interest payments of \$122,953 and principal payments of \$56,469. The District had cash and cash equivalents of \$1,198,004, and cash flows from operating activities were \$225,431. For fiscal year 2011 the District had a negative change in net assets of \$101,641 (August 31, 2011 Audited Financial Statements pages 8-10). If the District has a negative change in net assets in fiscal year 2012, the District will fall under the jurisdiction of the Utility Management Review Board. The District provided a financial forecast for fiscal years 2013 through 2015 showing an effective rate increase of \$3.00 per customer. The Forecast shows debt coverage ratios of 2.20 to 2.29 for the period. The District shows positive change in net assets for the years also.

Pursuant to Title 7, Chapter 82 and Title 9, Chapter 21 of the *Tennessee Code Annotated*, prior to issuance of refunding bonds by a utility district a plan of finance must be submitted to the Director of the Office of State and Local Finance for review.

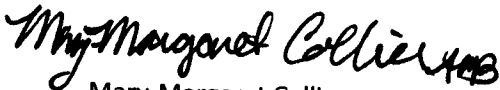
The Report for Publication must be published once during the week following its receipt in a newspaper of general circulation in the counties served by the utility district. Please post both this letter and report on the District's website. If you need an electronic copy of the attached report for publication please let us know.

The enclosed Report does not constitute either approval or disapproval by the Director of State and Local Finance of the proposed plan. 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 District should discuss these issues with a bond counsel or tax attorney.

Public Debt Report

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
Director of State and Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT
Mr. John Hall, TUA
Ms. Julianne Graham, Wiley Bros.
Mr. Kenner Billups, Wiley Bros.
Mr. Jeff Oldham, 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 for Publication) This Report does not constitute either approval or disapproval by the Director of State and Local Finance of the proposed plan.

REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE
CASTALIAN SPRINGS-BETHPAGE WATER UTILITY DISTRICT
REGARDING THE ISSUANCE OF ITS
WATERWORKS REVENUE REFUNDING AND IMPROVEMENTS BONDS, SERIES 2012

Pursuant to the requirements of Tennessee Code Annotated Section 7-82-501, the Director of the Office of State and Local Finance has reviewed a plan of finance (the "Plan") prepared with the assistance of the District's underwriter, Wiley Bros., for the proposed issuance of a maximum \$2,300,000 Castalian Springs-Bethpage Utility District Waterworks Revenue Refunding and Improvements Bonds, Series 2012 (the "2012 Bonds") to current refund approximately:

- \$186,922 Waterworks Revenue Bonds, Series 1981 (the "1981 Bonds");
- \$473,731 Waterworks Revenue Bonds, Series 1995 (the "1995 Bonds");
- \$282,907 Waterworks Revenue Bonds, Series 1998 (the "1998 Bonds");
- \$1,138,486 Waterworks Revenue Bonds, Series 2004 (the "2004 Bonds"); and
- provide approximately \$76,875 to pay costs of issuance.

The 1981 Bonds, 1995 Bonds, 1998 Bonds, and 2004 Bonds are collectively the "Refunded Bonds." The District plans to negotiate the sale of the 2012 Bonds. The purpose of the 2012 Bonds is for debt service savings. The proposed refunding estimates net present value savings of \$162,786 or 7.82% of the refunded principal of \$2,082,046.

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.

Compliance with the District's Debt Management Policy

The District adopted a debt management policy (the "Policy"). The District's Policy stated a refunding may occur for positive net present value savings. The Plan indicates this refunding produces positive net present value savings and appears to meet the Policy's criteria for refunding for savings.

Financial Analysis

For the fiscal year ending August 31, 2011, the District's operating income was -\$72,154 from revenues of \$1,865,047. Operating income should at least equal a utility's debt service; (principal and interest payment). Debt service payments for the year ending August 31, 2011, were \$179,422 consisting of interest payments of \$122,953 and principal payments of \$56,469. The District had cash and cash equivalents of \$1,198,004, and cash flows from operating activities were \$225,431. For fiscal year 2011 the District had a negative change in net assets of \$101,641 (August 31, 2011 Audited Financial Statements pages 8-10). If the District has a negative change in net assets in fiscal year 2012, the District will fall under the jurisdiction of the Utility Management Review Board. The District provided a financial forecast for fiscal years 2013 through 2015 showing an effective rate increase of \$3.00 per customer. The Forecast shows debt coverage ratios of 2.20 to 2.29 for the period. The District shows positive change in net assets for the years also.

Analysis

The Plan estimates the following concerning the 2012 Bonds:

- An estimated \$2,150,000 of 2012 Bonds will be sold at an estimated premium of \$11,216.60.
- The 2012 Bonds are being issued for cost savings; providing an estimated net present value savings of \$162,786 or 7.82% of the refunded principal of \$2,082,046.
- The 2012 Bonds do not extend the life of the debt of the Refunded Bonds.
- The estimated savings are generated by reducing the average coupon from 4.48% on the Refunded Bonds to 3.60% on the 2012 Bonds, and issuing the 2012 Bonds at a premium.
- The estimated cost of issuance is \$76,875 or \$35.76 per \$1,000 of the par amount of the 2012 Bonds including underwriter's discount of \$26,875 or \$12.50 per \$1,000 of par amount of the 2012 Bonds (all data from the Plan).

This report of the Office of State and Local Government does not constitute approval or disapproval by the Office for the Plan. This report is based on information as presented in the Plan. The assumptions included in the Plan may not reflect either current market conditions or market conditions at the time of sale.


Mary-Margaret Collier
Director of State and Local Finance
June 6, 2012