NEW ISSUES **BOOK-ENTRY ONLY**

STATE OF TENNESSEE
GENERAL OBLIGATION BONDS
$175,865,000 2016 SERIES A
$124,900,000 2016 REFUNDING SERIES B
$65,385,000 2016 REFUNDING SERIES C (FEDERALLY TAXABLE)

Dated: Date of Delivery **Due: As shown on the inside cover**

This Official Statement has been prepared by the State of Tennessee (the "State") to provide information relating to the State's General Obligation Bonds, 2016 Series A (the "Series A Bonds"), 2016 Refunding Series B (the "Series B Bonds") and 2016 Refunding Series C (Federally Taxable) (the "Series C Bonds) (collectively, the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read the Official Statement in its entirety.

The Bonds	Interest on the Bonds is payable semi-annually February 1 and August 1, commencing February 1, 2017. Interest rates and reoffering yields as shown on inside front cover. Fully registered bonds issued in denominations of $5,000 or any integral multiple thereof. See "THE BONDS" herein.
Redemption	See "THE BONDS – Redemption" herein
Security	Direct general obligations; pledge of full faith and credit. See "SECURITY FOR THE BONDS" herein.
Ratings	Fitch: AAA Moody's: Aaa S&P: AAA. See "RATINGS" herein.
Book-Entry Only System	The Depository Trust Company will act as securities depository for the Bonds. See "THE BONDS" and "Appendix D – Book-Entry Only System" herein.
Tax Exemption	Interest on the Series A Bonds and Series B Bonds is excluded from gross income for Federal income tax purposes to the extent and subject to the conditions, limitations and continuing compliance with tax covenants as described herein. Interest on the Series C Bonds is included in gross income for Federal income tax purposes. The principal of and interest on the Bonds are exempt from Tennessee taxes, subject to certain exceptions. See "TAX MATTERS" herein.
Issuer's Bond Counsel	Hawkins Delafield & Wood LLP, New York, New York.

The Bonds are offered when, as and if issued and received by the Underwriters subject to certain conditions, including the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the State of Tennessee. Certain legal matters in connection with the Bonds are subject to the approval of the Attorney General and Reporter of the State of Tennessee, as counsel to the State Funding Board. Certain legal matters will be passed upon for the Underwriters by Bass, Berry & Sims PLC, counsel to the Underwriters. The Bonds are expected to be available through the facilities of The Depository Trust Company on or about August 25, 2016.

Citigroup

Wells Fargo Securities **BofA Merrill Lynch** **Morgan Stanley**

July 27, 2016

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

STATE OF TENNESSEE

GENERAL OBLIGATION BONDS
$175,865,000 2016 SERIES A

Due	Amount	Interest Rate	Yield	CUSIP** 880541	Due	Amount	Interest Rate	Yield		CUSIP** 880541
August 1, 2017	$8,790,000	3.000%	0.450%	WH6	August 1, 2027	8,795,000	5.000%	1.600%	*	WT0
August 1, 2018	8,795,000	5.000	0.540	WJ2	August 1, 2028	8,795,000	5.000	1.680	*	WU7
August 1, 2019	8,795,000	5.000	0.610	WK9	August 1, 2029	8,795,000	5.000	1.740	*	WV5
August 1, 2020	8,795,000	5.000	0.760	WL7	August 1, 2030	8,795,000	5.000	1.790	*	WW3
August 1, 2021	8,795,000	5.000	0.880	WM5	August 1, 2031	8,790,000	5.000	1.820	*	WX1
August 1, 2022	8,795,000	5.000	1.040	WN3	August 1, 2032	8,790,000	5.000	1.870	*	WY9
August 1, 2023	8,795,000	5.000	1.180	WP8	August 1, 2033	8,790,000	5.000	1.920	*	WZ6
August 1, 2024	8,795,000	5.000	1.300	WQ6	August 1, 2034	8,790,000	5.000	1.960	*	XA0
August 1, 2025	8,795,000	5.000	1.400	WR4	August 1, 2035	8,790,000	5.000	2.010	*	XB8
August 1, 2026	8,795,000	5.000	1.500	WS2	August 1, 2036	8,790,000	5.000	2.050	*	XC6

*Priced to call date of August 1, 2026

GENERAL OBLIGATION BONDS
$124,900,000 2016 REFUNDING SERIES B

Due	Amount	Interest Rate	Yield	CUSIP** 880541	Due	Amount	Interest Rate	Yield		CUSIP** 880541
February 1, 2017	$2,795,000	5.000%	0.400%	XD4	August 1, 2027	$9,365,000	5.000%	1.600%	*	XJ1
August 1, 2023	16,670,000	5.000	1.180	XE2	August 1, 2028	16,945,000	5.000	1.680	*	XK8
August 1, 2024	9,365,000	5.000	1.300	XF9	August 1, 2029	17,055,000	5.000	1.740	*	XL6
August 1, 2025	16,810,000	5.000	1.400	XG7	August 1, 2030	17,170,000	5.000	1.790	*	XM4
August 1, 2026	9,365,000	5.000	1.500	XH5	August 1, 2031	9,360,000	5.000	1.820	*	XN2

*Priced to call date of August 1, 2026

GENERAL OBLIGATION BONDS
$65,385,000 2016 REFUNDING SERIES C (FEDERALLY TAXABLE)

Due	Amount	Interest Rate	Yield	CUSIP** 880541	Due	Amount	Interest Rate	Yield	CUSIP** 880541
February 1, 2017	$2,110,000	0.630%	0.630%	XP7	August 1, 2025	$7,305,000	2.066%	2.066%	XX0
August 1, 2018	1,405,000	0.966	0.966	XQ5	August 1, 2026	7,270,000	2.116	2.116	XY8
August 1, 2019	1,415,000	1.123	1.123	XR3	August 1, 2027	7,235,000	2.166	2.166	XZ5
August 1, 2020	2,105,000	1.295	1.295	XS1	August 1, 2028	7,210,000	2.266	2.266	YA9
August 1, 2021	2,090,000	1.445	1.445	XT9	August 1, 2029	2,565,000	2.366	2.366	YB7
August 1, 2022	4,980,000	1.749	1.749	XU6	August 1, 2030	2,505,000	2.516	2.516	YC5
August 1, 2023	7,390,000	1.849	1.849	XV4	August 1, 2031	2,450,000	2.666	2.666	YD3
August 1, 2024	7,350,000	1.966	1.966	XW2					

**These CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee, and are included solely for the convenience of the Bondholders. Neither the Underwriters nor the State of Tennessee is responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

THE FUNDING BOARD OF THE STATE OF TENNESSEE

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This Official Statement does not constitute a contract or agreement between the State or the Underwriters and the purchasers or holders of any of the Bonds, or an offering of any security other than the Bonds specifically offered hereby. No dealer, broker or other person has been authorized by the State to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the State. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the State. Certain other information set forth herein has been obtained by the State from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In making an investment decision, investors must rely on their own examination of the State and the terms of the offering, including the merits and risks involved.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the respective Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE RESPECTIVE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO REGISTRATION STATEMENT RELATING TO THE BONDS HAS BEEN FILED WITH THE SECURITIES EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES AGENCY. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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STATE OF TENNESSEE

GENERAL OBLIGATION BONDS
$175,865,000 2016 SERIES A
$124,900,000 2016 REFUNDING SERIES B
$65,385,000 2016 REFUNDING SERIES C (FEDERALLY TAXABLE)

INTRODUCTION

This Official Statement, which includes the cover page and the inside cover page hereof, and the Appendices hereto, including the financial information incorporated by reference in Appendix A and the statistical information incorporated by reference in Appendix B, is provided for the purpose of presenting information relating to the State of Tennessee (the "State") in connection with the issuance of the State's $175,865,000 General Obligation Bonds, 2016 Series A (the "Series A Bonds"), $124,900,000 General Obligation Bonds, 2016 Refunding Series B (the "Series B Bonds") and $65,385,000 General Obligation Bonds, 2016 Refunding Series C (Federally Taxable) (the "Series C Bonds" and, collectively with the Series A Bonds and Series B Bonds, the "Bonds").

The Bonds will be issued pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and laws of the State, including Title 9, Chapter 9, Tennessee Code Annotated, and various bond authorizations enacted by the General Assembly of the State, and pursuant to a resolution (the "Bond Resolution") adopted by the State Funding Board of the State on June 9, 2016. The Series A Bonds are being issued to (i) fund certain capital projects of the State, (ii) provide for the retirement at maturity of a portion of the State's outstanding general obligation commercial paper ("CP") issued to fund certain capital projects of the State, and (iii) fund certain costs of issuance of the Series A Bonds. The Series B and Series C Bonds are being issued to (i) refund certain of the State's outstanding general obligation bonds and (ii) fund certain costs of issuance of the Series B and Series C Bonds. See "APPLICATION OF BOND PROCEEDS AND PLAN OF REFUNDING".

The Bonds are direct general obligations of the State for which the State has pledged its full faith and credit for the payment of principal, premium, if any, and interest; and have a charge and lien upon all fees, taxes and other revenues and funds allocated to the State's general fund, debt service fund, and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. See "SECURITY FOR THE BONDS".

THE BONDS

Description

The Bonds will be dated the date of their delivery. The Bonds will mature as shown on the inside cover page and will bear interest payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2017, at the rates per annum as shown on the inside cover page. Interest will be payable to registered owners as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective stated due date for such interest. The Bonds will be issuable as fully registered bonds in denominations of $5,000 or integral multiples thereof.

Book-Entry Only System

Upon initial issuance, the Bonds will be available only in book-entry form. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of the Bonds of each series bearing interest at each interest rate, each in the aggregate principal amount of such maturity and bearing interest at such rate, will be registered in the name of Cede & Co. (DTC's partnership nominee) and deposited with DTC. Beneficial owners of Bonds will not receive physical delivery of bond certificates, except under limited circumstances.

For a description of DTC and its book-entry only system, see “Appendix D – BOOK-ENTRY ONLY SYSTEM”.

Redemption

Optional Redemption. At the option of the State, the Bonds maturing on or after August 1, 2027 are subject to redemption prior to their respective stated maturities, from any monies that are available to the State for such purpose, at any time on and after August 1, 2026 as a whole, or in part from time to time in any order of maturity determined by the State, at a redemption price of par, together with accrued interest to the redemption date.

Prior to August 1, 2026, the Series C Bonds are subject to redemption prior to their stated maturities at the option of the State, at any time as a whole, or in part from time to time in any order of maturity as determined by the State, at a Redemption Price equal to the Make-Whole Redemption Price (as defined below).

The “Make-Whole Redemption Price” of any Series C Bonds to be redeemed is an amount equal to the greater of (i) 100% of the principal amount of such Series C Bonds or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series C Bonds not including any portion of those payments of interest accrued and unpaid as of the date on which such Series C Bonds are to be redeemed, discounted on a semiannual basis to the date on which such Series C Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 20 basis points; plus, in each case, accrued and unpaid interest on such Series C Bonds on such redemption date.

"Treasury Rate" means, with respect to any redemption date for any particular Series C Bond, the greater of:

(i) the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the State at the State’s expense and such determination shall be conclusive and binding on the owners of the Series C Bonds, or

(ii) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series C Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of the Series C Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Series C Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by the State.

"Reference Treasury Dealer" means each of the four firms, specified by the State from time to time, that are primary United States government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the State will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series C Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third business day preceding such redemption date.

The redemption price of such Series C Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the State to calculate such redemption price. The State may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Selection of the Series A Bonds and the Series B Bonds to be Redeemed. If less than all of the Series A Bonds or the Series B Bonds of a maturity are to be redeemed, the particular Series A Bonds or Series B Bonds or portions thereof of such maturity to be redeemed shall be selected by the State by lot. For so long as a book-entry only system is in effect with respect to the Series A Bond and the Series B Bonds and DTC or a successor securities repository is the sole registered owner of such Series A Bonds or Series B Bonds, in the event of a redemption of less than all of the Series A Bonds or Series B Bonds of a maturity, the particular ownership interests of the Series A Bonds or Series B Bonds of such maturity to be redeemed shall by selected by DTC and Direct DTC Participants and Indirect DTC Participants (all as defined in Appendix D hereto), or by any such successor securities depository or any other intermediary, in accordance with their respective operating rules and procedures. In the event of a partial redemption, DTC's rules and procedures currently provide for the redemption to be processed by random lottery. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, or any other intermediary, to make such selection, or to make or fail to make any such selection in any particular manner, will not affect the sufficiency or the validity of the redemption of the Series A Bonds or the Series B Bonds. See "Book-Entry-Only System" and Appendix D Book-Entry-Only System.

Selection of the Series C Bonds to be Redeemed. If less than all of the Series C Bonds of a maturity are to be redeemed, the Series C Bonds of such maturity shall be redeemed pro rata as nearly as practicable in the proportion that the principal amount of the outstanding Series C Bonds of such maturity owned by each registered owner bears to the aggregate principal amount of the outstanding Series C Bonds of such maturity. For so long as a book-entry only system is in effect and DTC or a successor securities repository is the sole registered owner of the Series C Bonds, in the event of a redemption of less than all of the Series C Bonds of a maturity, the particular ownership interests of the Series C Bonds of such maturity to be redeemed shall be selected by DTC and Direct DTC Participants and Indirect DTC Participants, or by any such successor repository or any other intermediary, in accordance with their respective operating rules and procedures. The Underwriters have advised the State that the Series C Bonds will be made eligible for partial redemption to be treated by DTC in accordance with its rules and procedures, as a "pro rata pass through distribution of principal". To the extent practicable, the Paying Agent will request that DTC select the amount of such interests of Series C Bonds to be redeemed on a pro rata pass-through distribution of principal basis in integral multiples of $5,000 in accordance with DTC procedures then in effect. The State can provide no assurance that DTC or its successor, Direct DTC Participants and Indirect DTC Participants, or any successor repository or any other intermediary will allocate the redemption of Series C Bonds on such basis. If, at the time of redemption of the Series C Bonds, either (i) the operational arrangements of DTC do not allow for the redemption of the Series C Bonds on a pro rata pass through distribution of principal basis, or (ii) the Paying Agent has failed to notify DTC that the Series C Bonds to be redeemed are to be redeemed pursuant to DTC's pro rata pass-through distribution of principal procedures, or has failed to furnish to DTC the factor to be applied by it in determining the pro rata allocation of the principal to be redeemed, then in each such case the Series C Bonds of such maturity to be redeemed may be selected in accordance with DTC operating rules and procedures, which currently provide for the redemption to be processed by random lottery. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, or of any other intermediary, to make such selection or proportional allocation, for whatever reason, will not affect the sufficiency or the validity of the redemption of Series C Bonds. See "Book Entry-Only System" and Appendix D Book Entry-Only System.

Notice of Redemption; Conditional Notice. Written notice shall be mailed to registered owners of the Bonds to be redeemed, at least thirty (30) days prior to the redemption date, at the address that appears on the registration books, but failure to receive any such notice shall not affect the validity of the redemption proceedings. Any notice of redemption may provide that such redemption is conditional on the availability of sufficient moneys to pay the redemption price, plus interest accrued and unpaid to the redemption date. While DTC or its nominee is the registered owner of the Bonds, the State will give notice of redemption of the Bonds to DTC or its nominee or its successor and shall not be responsible for mailing notices of redemption to Direct DTC Participants, to Indirect

DTC Participants or to the beneficial owners of the Bonds. Any failure of DTC or its nominee or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a beneficial owner of a bond of any redemption will not affect the sufficiency or the validity of the redemption of such bond. See “Appendix D – Book-Entry Only System”. The State can give no assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants will distribute such redemption notices to the beneficial owners of the Bonds, or that they will do so on a timely basis.

APPLICATION OF BOND PROCEEDS AND PLAN OF REFUNDING

The Series A Bonds are being issued to (i) fund certain capital projects of the State, (ii) provide for the retirement at maturity of a portion of the State’s outstanding CP issued to fund certain capital projects of the State, and (iii) fund certain costs of issuance of the Series A Bonds.

The Series B Bonds and Series C Bonds are being issued to (i) refund certain of the State’s outstanding general obligation bonds, as indicated in the tables below (the “Series B Refunded Bonds” and the “Series C Refunded Bonds”, respectively, and collectively the “Refunded Bonds”) and (ii) fund certain costs of issuance of the Series B Bonds and Series C Bonds. The refunding is being undertaken to realize debt service savings. Certain maturities of the 2011 Series A Bonds will be refunded in part by the Series B Bonds and by the Series C Bonds. The principal amounts of the maturities of the 2011 Series A Bonds that will constitute Series B Refunded Bonds and Series C Refunded Bonds, respectively, are listed below.

Series B Refunded Bonds

Series	Maturity Date	Outstanding Principal Amount	Redemption Date	Redemption Price
2010 A	5/1/2024	$ 9,325,000	5/1/2018	100%
	5/1/2026	9,325,000	5/1/2018	100
	5/1/2029	9,325,000	5/1/2018	100
	5/1/2030	9,325,000	5/1/2018	100
	5/1/2031	9,325,000	5/1/2018	100

Series	Maturity Date	Outstanding Principal Amount	Principal Amount Refunded - Series B *	Redemption Date	Redemption Price
2011 A	10/1/2023	$ 12,770,000	$ 10,225,000	10/1/2021	100%
	10/1/2024	12,770,000	10,225,000	10/1/2021	100
	10/1/2025	12,770,000	10,225,000	10/1/2021	100
	10/1/2026	12,770,000	10,225,000	10/1/2021	100
	10/1/2027	12,770,000	10,225,000	10/1/2021	100
	10/1/2028	12,770,000	10,225,000	10/1/2021	100
	10/1/2029	12,770,000	10,225,000	10/1/2021	100
	10/1/2030	12,770,000	10,225,000	10/1/2021	100
	10/1/2031	12,770,000	10,225,000	10/1/2021	100

*The balance of the Series 2011 A Bonds constitute Series C Refunded Bonds.

Series C Refunded Bonds

Series	Maturity Date	Outstanding Principal Amount	Redemption Date	Redemption Price
2008 B	9/1/2020	$ 770,000	9/1/2018	100%
	9/1/2021	765,000	9/1/2018	100
	9/1/2022	765,000	9/1/2018	100
	9/1/2023	765,000	9/1/2018	100
	9/1/2024	765,000	9/1/2018	100
	9/1/2028+	3,060,000	9/1/2018	100
2009 D	5/1/2023	$ 3,280,000	5/1/2019	100%
	5/1/2024	3,415,000	5/1/2019	100
	5/1/2029+	19,505,000	5/1/2019	100

Series	Maturity Date	Outstanding Principal Amount	Principal Amount Refunded - Series C *	Redemption Date	Redemption Price
2011 A	10/1/2023	$ 12,770,000	$ 2,545,000	10/1/2021	100%
	10/1/2024	12,770,000	2,545,000	10/1/2021	100
	10/1/2025	12,770,000	2,545,000	10/1/2021	100
	10/1/2026	12,770,000	2,545,000	10/1/2021	100
	10/1/2027	12,770,000	2,545,000	10/1/2021	100
	10/1/2028	12,770,000	2,545,000	10/1/2021	100
	10/1/2029	12,770,000	2,545,000	10/1/2021	100
	10/1/2030	12,770,000	2,545,000	10/1/2021	100
	10/1/2031	12,770,000	2,545,000	10/1/2021	100

*The balance of the Series 2011 A Bonds constitute Series B Refunded Bonds.
+Denotes a term bond.

Upon initial delivery of the Bonds, the State Funding Board will enter into a Refunding Trust Agreement (the "Refunding Trust Agreement") with Regions Bank (the "Refunding Trustee") with respect to the Refunded Bonds. The Refunding Trust Agreement will create an irrevocable refunding trust fund (the "Refunding Trust Fund") to be held by the Refunding Trustee for the payment of the Refunded Bonds. The State will deposit proceeds of the Series B Bonds and Series C Bonds and other available monies, if required, with the Refunding Trustee for deposit in the Refunding Trust Fund in amounts that will be held as cash or used to acquire direct general obligations of the United States of America (the "Government Obligations") maturing in amounts and bearing interest at rates sufficient without reinvestment, together with cash on deposit, to redeem the Refunded Bonds on their respective redemption dates and at their redemption prices and to pay all interest coming due on the Refunded Bonds on and prior to their respective redemption dates. The Government Obligations will be purchased directly from the Treasury Department of the United States of America and in the open market through a competitive bidding process. For those Government Obligations purchased in the open market, such Government Obligations may be purchased from one or more of the Underwriters or affiliates of the Underwriters. The Refunding Trust Fund, including the interest earnings on the Government Obligations, in the amounts needed to pay the redemption prices of and interest on the Refunded Bonds, will be pledged solely for the benefit of the holders of the Refunded Bonds. The State is required to deposit in the Refunding Trust Fund any additional amounts that may be necessary for any reason to enable the Refunding Trustee to pay the redemption price of and interest on the Refunded Bonds.

The State will obtain verification of sufficiency of the amounts and Government Obligations deposited in the Refunding Trust Fund for the Refunded Bonds, and of certain yields, from Robert Thomas CPA, LLC. (See "VERIFICATION AGENT").

Upon issuance of the Bonds, the Refunded Bonds will be irrevocably designated for redemption on the respective redemption dates and at the respective redemption prices as stated in the table above, plus accrued interest to the redemption dates, and provision will be made by the State in the Refunding Trust Agreement for the giving of notice of redemption of the Refunded Bonds. Written notice of any such redemption shall be mailed to the registered owners of the Refunded Bonds to be redeemed not less than (30) days prior to the redemption date. While DTC or its nominee is the registered owner of the Refunded Bonds, such notices will be sent to DTC and the State shall not be responsible for mailing notices of redemption to Direct DTC Participants or Indirect DTC Participants or to the Beneficial Owners of the Refunded Bonds.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied on the date of issue of the Bonds in the amounts as follows:

Sources of Funds:	**Series A Bonds**	**Series B Bonds**	**Series C Bonds**	**Total**
Par Amount	$ 175,865,000.00	$ 124,900,000.00	$ 65,385,000.00	$ 366,150,000.00
Original Issue Premium	42,513,156.35	35,745,897.10	-	78,259,053.45
Total	$ 218,378,156.35	$ 160,645,897.10	$ 65,385,000.00	$ 444,409,053.45
Uses of Funds:				
Retirement of CP (approx.)	$ 124,353,000.00	-	-	$ 124,353,000.00
Capital Projects Fund (approx.)	93,647,000.00	-	-	93,647,000.00
Deposits to Refunding Trust Fund	-	$ 160,347,955.92	$ 65,226,246.37	225,574,202.29
Costs of Issuance	252,389.22	206,717.30	111,542.93	570,649.45
Underwriter's Discount	125,767.13	91,223.88	47,210.70	264,201.71
Total	$ 218,378,156.35	$ 160,645,897.10	$ 65,385,000.00	$ 444,409,053.45

SECURITY FOR THE BONDS

Sources of Payment and Security

The Bonds (as with all other State general obligation bonds and notes) constitute (a) direct general obligations of the State for the payment of the principal of and premium, if any, and interest on which there is also pledged the full faith and credit of the State; and (b) a charge and lien upon all fees, taxes and other revenues and funds allocated to the State's general fund, debt service fund, and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes.

The charge and lien on fees, taxes and other revenues in favor of the Bonds is subject to the specific pledge of "Special Taxes" in favor of State general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of: (i) the annual proceeds of a tax of five cents (5¢) per gallon upon gasoline; (ii) the annual proceeds of a special tax of one cent (1¢) per gallon upon petroleum products; (iii) one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the State; and (iv) the annual proceeds of the franchise taxes imposed by the franchise tax law of the State. The Total Special Taxes collected, as reported for each year in the June monthly Statement of Revenue Collections (prepared on a cash basis) were as follows:

	Fiscal Year Ended			
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Special Taxes	$ 1,113,976,000	$ 1,012,030,000	$ 1,010,572,000	$ 963,834,000

Source: TN Department of Revenue

The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of Special Taxes will expire. The Bonds (as with all other State general obligation bonds issued after July 1, 2013, and notes) will not benefit from this specific pledge of Special Taxes.

The State covenants with the holders of the Bonds (and all persons who hold State general obligation bonds or notes) that it will raise fees, taxes and other revenues sufficient, together with funds on hand derived from all sources, to pay the principal of and premium, if any, and interest on the Bonds and all other general obligation bonds and notes of the State as and when due and payable. The State has also covenanted with the holders of State general obligation bonds outstanding as of July 1, 2013, not to decrease by legislative action the Special Taxes unless the State Funding Board certifies that the State is not in default in the payment of any outstanding debt and that Special Taxes at the decreased rates specified by the State Funding Board in such year or years (not to exceed two (2) years) will be sufficient to make all payments required to be made therefrom by the State on all of its obligations during the period that such decrease will be in effect.

The State is permitted by the State Constitution to levy ad valorem taxes on all of the taxable property within the State for the payment of the principal of and interest on the State's general obligation indebtedness; however, the State does not currently levy such a tax and has no current intent to do so.

All general obligation indebtedness of the State is secured on parity with all other general obligation indebtedness of the State, except that the Special Taxes secure only general obligation bonds outstanding on July 1, 2013. The State may issue, and currently is issuing as CP, general obligation bond anticipation notes, for the payment of which the full faith and credit of the State, but not Special Taxes, is pledged. See "STATE INDEBTEDNESS – Commercial Paper Program". In addition, the State is authorized to issue general obligation tax revenue anticipation notes, for the payment of which the full faith and credit of the State, but not Special Taxes, is pledged; however, the State has not heretofore issued any such notes and has no current intent to do so. See "STATE INDEBTEDNESS – Tax Revenue Anticipation Notes".

See “STATE INDEBTEDNESS” for the amounts of outstanding debt. For a table of annual debt service requirements for all general obligation bonds, see “STATE INDEBTEDNESS – Outstanding General Obligation Bonded Indebtedness”.

Appropriations for Payment of General Obligation Debt Service

Pursuant to Section 9-9-103, Tennessee Code Annotated, there is a continuing appropriation of a sum sufficient for payment of debt service (principal, interest and premium, if any) on general obligation bonds and notes from any funds in the State treasury not otherwise legally restricted, independent of an appropriation bill otherwise required by State law.

Section 67-6-103(a)(5), Tennessee Code Annotated, currently provides that 0.9185% of the sales and use tax collections is appropriated to the State Funding Board for the payment of principal and interest on the State’s general obligation bonds. This statutory provision subsequently may be changed or eliminated. The total sales and use tax collections and the amounts allocated to debt service for the last five fiscal years as reported in the State’s Annual Financial Reports were as follows (amounts have been rounded):

	Total Sales and Use Tax Collections (Accrual Basis)	Allocation to Debt Service (Modified Accrual Basis)
June 30, 2015	$ 7,713,695,000	$ 54,662,000
June 30, 2014	7,276,443,000	51,634,000
June 30, 2013	7,018,128,000	49,709,000
June 30, 2012	6,884,762,000	48,961,000
June 30, 2011	6,461,461,000	46,027,000

In accordance with the Governmental Accounting Standards Board’s Statement 44 “Economic Condition Reporting: The Statistical Section,” the total sales and use tax collections are reported on an accrual basis instead of on a modified accrual basis. However, the calculation of 0.9185% of the sales and use tax collections for allocation to debt service continues to be reported on a modified accrual basis. For a history of total sales and use tax collections and rates since Fiscal Year 2006, see the statistical data incorporated by reference in Appendix B.

Remedies and Rights of Bondholders

Each Bond when duly issued will constitute a contract between the State and the registered owner of the Bond. The State Funding Board shall certify to the Commissioner of Finance and Administration from time to time, but not less than annually, the amount necessary, together with funds on hand derived from all sources, to enable the State Funding Board to provide for the payment of the principal of and premium, if any, and interest on all general obligation indebtedness as and when the same shall become due and payable. Under Section 9-9-105(a), Tennessee Code Annotated, such indebtedness shall constitute a charge and lien upon the entire fees, taxes and other revenues and funds allocated to the general fund, the debt service fund and highway fund, and, if necessary, the first monies thereafter received and allocated to the general fund, the debt service fund and the highway fund, except only such fees, taxes, revenues and funds as may be otherwise legally restricted, subject to the pledge of Special Taxes to general obligation bonds outstanding on July 1, 2013. Under Section 9-9-111, Tennessee Code Annotated, a holder of any general obligation bonds, including the Bonds, and notes has a vested right in the performance of the covenants and pledges contained in Title 9, Chapter 9, Tennessee Code Annotated, and the performance of the duties imposed on any officer or agency of the State by the provisions of Chapter 9 may be enforced by the holder of any general obligation bond or note by appropriate proceedings, provided that no holder of obligations issued after July 1, 2013, shall have any such rights with respect to the pledge of Special Taxes described above.

Under the State Constitution, public money may be expended only pursuant to appropriations made by law. See “STATE FINANCES.” Such expenditures include, but are not limited to, the payment of debt service. Continuing appropriations exist under current law for the payment of debt service on the State’s general obligation bonds, including the Bonds, from a specified percentage of sales and use taxes as discussed above. Furthermore, Section 9-9-103, Tennessee Code Annotated, appropriates to the State Funding Board on a direct and continuing basis a sum sufficient for payment of debt service (principal, interest and premium, if any) on outstanding general obligation bonds and other debt obligations (including notes) from any funds (including, with respect to bonds outstanding on July 1, 2013, Special Taxes) held in the State treasury not otherwise legally restricted, independent of an appropriation bill otherwise required by State law.

The State has not generally waived immunity from suit or extended its consent to be sued, although specific actions may be authorized, such as is described in the second preceding paragraph. Current state law provides that monetary claims against the State for breach of its contractual obligations and certain other causes may be heard and determined exclusively in the forum of the Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs. Whether a continuing appropriation exists for the payment of a claim in the Tennessee Claims Commission for unpaid debt service, if necessary, in addition to other available remedies, is not clear. In any event, sovereign immunity and other legal principles may bar actions to compel the General Assembly to appropriate monies for such payments.

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Additional Bonds Test

The State, by Section 9-9-105(c), Tennessee Code Annotated, covenants with the persons who now or may hereafter hold any State general obligation bonds that no general obligation bonds shall be issued after July 1, 2013, unless the following debt service coverage test is satisfied: the amount necessary to pay the maximum annual debt service payable in the then current or any future fiscal year is not greater than ten percent (10%) of the amount of total state tax revenue allocated to the general fund, to the debt service fund, and to the highway fund for the immediately preceding fiscal year. For purposes of satisfying this test, "state tax revenues" are defined as those taxes, licenses, fees, fines, and permits collected by the department of revenue and allocated to the general fund, the debt service fund, and the highway fund excluding the portion of those taxes shared with local governments. "Debt service", for this purpose, means and includes the aggregate of the principal of and interest on all outstanding general obligation bonds and the general obligation bonds then proposed to be issued; provided, any outstanding bonds the payment of which has been fully provided for by funds or securities (including expected income therefrom), or both, set aside for that purpose are excluded in determining the outstanding bonds.

The State will comply with that additional bonds test as a condition of issuing the Bonds, as demonstrated by the following table:

(a)	Maximum annual debt service		$ 243,819,111 (1)
(b)	State tax revenue allocated for FYE June 30, 2016 to:		
	General Fund	$ 11,272,889,000 * (1) (2)	
	Debt Service Fund	409,536,000 * (1) (2)	
	Highway Fund	721,948,000 * (1) (2)	
(c)	Total of State tax revenue allocated for FYE June 30, 2016		$ 12,404,373,000
(d)	(a) divided by (c) expressed as a percentage (must be no greater than 10%)		1.97%

* Source: Tennessee Department of Revenue and Tennessee Department of Finance and Administration

(1) Unaudited.

(2) Includes actual tax revenues collected on a cash basis for Fiscal Year 2016 (July 2015 - June 2016); net of amounts apportioned to cities and counties as State shared taxes.

STATE INDEBTEDNESS

General

The State Constitution forbids the expenditure of the proceeds of any debt obligation for a purpose other than the purpose for which it was authorized. Under State law, the term of bonds authorized and issued cannot exceed the expected life of the projects being financed. Furthermore, the amount of bonds issued cannot exceed the amount authorized by the General Assembly.

The procedure for funding State debt is provided by Chapter 9 of Title 9, Tennessee Code Annotated. The State Funding Board of the State of Tennessee is the entity authorized to issue general obligation indebtedness of the State. The State Funding Board is composed of the Governor, the State Comptroller of the Treasury, the Secretary of State, the State Treasurer, and the Commissioner of Finance and Administration. The State Funding Board issues all general obligation indebtedness in the name of the State pursuant to authorization by the General Assembly without concurrence or approval by any other governmental agency or by the electorate. Although the State Funding Board determines the terms of general obligation indebtedness, the interest rate on the general obligation indebtedness cannot exceed the Formula Rate which is defined in Section 47-14-102(6), Tennessee Code Annotated, as generally the lesser of (i) the average prime loan rate published by the Federal Reserve System plus 4% or (ii) 24%.

Termination of Existence

The Governmental Entity Review Law provides for the termination of various governmental entities on specified dates. That date for the State Funding Board is June 30, 2024. The law also provides that if the General Assembly does not extend the termination date of an entity, the existence of the entity will continue for an additional year without any diminution, reduction or limitation of its powers. However, the State is required to preserve the rights of the holders of any outstanding indebtedness of the entity at the time of termination and the obligations and rights of such entity shall accrue to the State.

Bonds

State law provides that the State may issue general obligation bonds for one or more purposes authorized by the General Assembly of the State. As of June 30, 2016 the State had $1,899,205,000 (unaudited) of outstanding general obligation bonds, excluding the Bonds and including the Refunded Bonds.

Commercial Paper Program

Bond anticipation notes may be issued for purposes for which bonds have been authorized, if the notes are also authorized by legislative act. Notes have been authorized to be issued for the purposes of all existing bond authorizations.

In March 2000, the State instituted a commercial paper program for authorized capital projects. Commercial paper ("CP") has been and will be issued under the Commercial Paper Resolution, adopted by the members of the State Funding Board of the State on March 6, 2000, as amended, in a principal amount outstanding at any one time not to exceed $350,000,000. CP constitutes bond anticipation notes and is a direct general obligation of the State for the payment of which, as to both principal and interest, the full faith and credit of the State, but not Special Taxes, are pledged.

The State has entered into a Standby Commercial Paper Purchase Agreement (the "Standby Agreement") with the Tennessee Consolidated Retirement System ("TCRS") under which TCRS is obligated to purchase newly issued CP, issued to pay the principal of other CP, subject to suspension or termination upon the occurrence of certain events. The Standby Agreement requires that the principal amount of CP maturing on any day shall not exceed $100,000,000 or such greater principal amount as agreed upon by the State and TCRS.

CP may have varying maturities of not more than 270 days from their respective dates of issuance; provided, however, that no CP shall mature on a business day that will permit rollover purchased CP to be issued and mature on a business day that is not later than one business day prior to the stated expiration date of the Standby Agreement without regard to any early termination of the Standby Agreement. Currently, this date is July 1, 2021. CP is not subject to redemption prior to maturity.

As of June 30, 2016, $245,536,000 (unaudited) principal amount of CP was outstanding under this program. The Series A Bonds will retire approximately $124,353,000 of CP.

Tax Revenue Anticipation Notes

The State is authorized to issue general obligation tax revenue anticipation notes ("TRANs") in anticipation of the receipt of tax revenues in the then current fiscal year of the State. The State Constitution prohibits the issuance of debt for operating purposes maturing beyond the end of a fiscal year. Accordingly, any TRANs issued in a fiscal year must be repaid by the end of the same fiscal year. TRANs, if issued, will constitute direct obligations of the State for the payment of which, as to principal and interest, the full faith and credit of the State, but not Special Taxes, are pledged. See "SECURITY FOR THE BONDS". The State has not heretofore issued TRANs and has no current intent to do so.

Outstanding General Obligation Bonded Indebtedness

As of June 30, 2016, there were $1,899,205,000 (unaudited) State general obligation bonds outstanding, excluding the Bonds and including the Refunded Bonds.

The annual debt service requirements for the outstanding general obligation bonded indebtedness following the issuance of the Bonds and the refunding of the Refunded Bonds are as follows:

GENERAL OBLIGATION BONDED DEBT SERVICE

	Outstanding Debt Service *			Less Refunded Debt Service			Plus Debt Service on the Bonds			Total Debt Service		
Fiscal Year Ending (6/30)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	$ 160,275,000	$ 80,747,788	$ 241,022,788	-	$ 9,104,750	$ 9,104,750	$ 4,905,000	$ 6,996,072	$ 11,901,072	$ 165,180,000	$ 78,639,111	$ 243,819,111
2018	151,580,000	73,567,639	225,147,639	-	9,104,750	9,104,750	8,790,000	15,859,889	24,649,889	160,370,000	80,322,778	240,692,778
2019	141,265,000	66,944,536	208,209,536	-	9,104,750	9,104,750	10,200,000	15,501,378	25,701,378	151,465,000	73,341,165	224,806,165
2020	138,280,000	60,773,431	199,053,431	-	9,104,750	9,104,750	10,210,000	15,046,897	25,256,897	148,490,000	66,715,578	215,205,578
2021	131,540,000	54,645,145	186,185,145	$ 770,000	9,085,018	9,855,018	10,900,000	14,585,572	25,485,572	141,670,000	60,145,698	201,815,698
2022	131,790,000	48,583,920	180,373,920	765,000	9,045,206	9,810,206	10,885,000	14,117,091	25,002,091	141,910,000	53,655,805	195,565,805
2023	124,180,000	42,703,442	166,883,442	4,045,000	9,004,565	13,049,565	13,775,000	13,618,691	27,393,691	133,910,000	47,317,568	181,227,568
2024	124,665,000	37,597,904	162,262,904	26,275,000	8,485,590	34,760,590	32,855,000	12,650,320	45,505,320	131,245,000	41,762,635	173,007,635
2025	115,390,000	32,607,463	147,997,463	17,085,000	7,356,529	24,441,529	25,510,000	11,419,124	36,929,124	123,815,000	36,670,058	160,485,058
2026	115,270,000	27,825,601	143,095,601	26,575,000	6,476,780	33,051,780	32,910,000	10,177,288	43,087,288	121,605,000	31,526,110	153,131,110
2027	106,545,000	22,989,539	129,534,539	17,425,000	5,295,637	22,720,637	25,430,000	8,930,786	34,360,786	114,550,000	26,624,688	141,174,688
2028	101,975,000	18,546,315	120,521,315	17,610,000	4,396,120	22,006,120	25,395,000	7,867,514	33,262,514	109,760,000	22,017,709	131,777,709
2029	95,460,000	14,370,323	109,830,323	27,135,000	3,486,264	30,621,264	32,950,000	6,609,970	39,559,970	101,275,000	17,494,030	118,769,030
2030	70,605,000	10,545,806	81,150,806	22,095,000	2,260,656	24,355,656	28,415,000	5,208,187	33,623,187	76,925,000	13,493,336	90,418,336
2031	59,410,000	7,660,746	67,070,746	22,095,000	1,295,781	23,390,781	28,470,000	3,850,955	32,320,955	65,785,000	10,215,920	76,000,920
2032	50,080,000	5,044,030	55,124,030	12,770,000	319,250	13,089,250	20,600,000	2,683,909	23,283,909	57,910,000	7,408,688	65,318,688
2033	26,865,000	3,303,125	30,168,125	-	-	-	8,790,000	1,977,750	10,767,750	35,655,000	5,280,875	40,935,875
2034	19,860,000	2,205,000	22,065,000	-	-	-	8,790,000	1,538,250	10,328,250	28,650,000	3,743,250	32,393,250
2035	19,860,000	1,212,000	21,072,000	-	-	-	8,790,000	1,098,750	9,888,750	28,650,000	2,310,750	30,960,750
2036	14,310,000	357,750	14,667,750	-	-	-	8,790,000	659,250	9,449,250	23,100,000	1,017,000	24,117,000
2037	-	-	-	-	-	-	8,790,000	219,750	9,009,750	8,790,000	219,750	9,009,750
	$1,899,205,000	$612,231,503	$2,511,436,503	$194,645,000	$102,926,396	$297,571,396	$366,150,000	$170,617,394	$536,767,394	$2,070,710,000	$679,922,501	$2,750,632,501

* As of June 30, 2016

Authorized and Unissued Bonds

The State had authorized as of June 30, 2016, $1,703,700,083 of general obligation bonds that have not been issued, including the Series A Bonds and excluding an additional amount not to exceed 2.5% of certain authorized amounts to be used for funding discounts and the cost of issuance at the discretion of the State Funding Board. Of such authorized and unissued amount, $730,700,000 is for highway improvements. In addition, $117,000,000 of the authorized and unissued amount is allocated to the Tennessee transportation infrastructure improvement bond program, which is for the repair, replacement or rehabilitation of bridges. Bonds for highway improvements and for the Tennessee transportation infrastructure improvement program are authorized for contractual purposes and authorizations are canceled when construction projects are completed. No general obligation bonds or CP have been issued for these purposes since 1977 and the State does not currently anticipate issuing general obligation bonds or CP for these programs; however, the State can give no assurance that this practice will continue.

Rate of Debt Retirement

The following table sets forth the rate of scheduled debt retirement of the State on all outstanding general obligation bonds as of June 30, 2016, excluding the Bonds and including the Refunded Bonds.

Principal Amount Due Within	Principal Amount	% of Total
5 Years	$ 722,940,000	38.07%
10 Years	1,334,235,000	70.25%
15 Years	1,768,230,000	93.10%
20 Years	1,899,205,000	100.00%

STATE FINANCES

The Budget Process

The State of Tennessee Budget for the appropriate fiscal year originates in the executive branch with the Governor's annual budget recommendation to the General Assembly (the "Recommended Budget"). Initially, budget preparation instructions are issued by the Department of Finance and Administration to all State agencies and departments. These instructions describe the Administration's guidelines related to continuing the current level of service (baseline budget) and proposed cost increase requests. The instructions are to be used by agencies and departments in preparing their department budgets for submission to the Department of Finance and Administration in October of each year.

During the fall, each department's budget request is reviewed, and requests for cost increases are analyzed by the Department of Finance and Administration. Conferences are held with departmental and agency representatives, the Director of Budget, and the Department of Finance and Administration staff to determine which, if any, of the proposals should be recommended.

During the 1997 legislative session, the Office of Legislative Budget Analysis was created to enable the General Assembly to strengthen its expertise in governmental budgeting and financing and in making public policy decisions. The office was created as an independent department of the legislature working for both the Senate and the House of Representatives and charged with reviewing and analyzing the State's budget and overall financial condition. The staff summarizes and analyzes the Governor's budget proposal for members of the General Assembly, secures budget justification data from the various state agencies, provides recommendations on budget proposals and provides assistance on financial matters to the standing committees, as directed.

Under State law, the Governor submits the Recommended Budget to the General Assembly at the start of the legislative session. The Recommended Budget must be presented to the General Assembly prior to February 1 of each year, except that a Governor in the first year of a four-year term of office must present a budget prior to March 1 of that year. However, the General Assembly may extend these deadlines by joint resolution. Subsequently, the Governor submits a General Appropriation Bill and bond authorization bills containing appropriations and general obligation bond authorizations required to finance the program levels and capital outlay proposed in the Recommended Budget. Throughout the legislative session, the Finance, Ways and Means Committees and appropriate standing committees of the House and Senate hold budget hearings for each department to determine if changes should be made to the General Appropriation Bill and general obligation bond authorizations. After review and consideration, the Finance, Ways and Means Committees report on the General Appropriation Bill and bond authorization bills, with any committee amendments, to the House of Representatives and Senate for action.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorization is the General Appropriation Act as approved by the General Assembly and signed by the Governor. These appropriations are generally limited to a one-year period of availability. The General Appropriation Act requires both a simple majority vote of the House and a simple majority vote of the Senate. Approval of the General Appropriation Bill usually occurs during the last week of the legislative session. Once signed by the speaker of each House of the General Assembly, the General Appropriation Act is sent to the Governor for signature. If the Governor does not act within ten days, excluding Sundays, the General Appropriation Act becomes law without signature. The Governor may reduce or eliminate specific line items in the General Appropriation Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a vote of a majority of the members elected to each House of the General Assembly.

Appropriations also may be included in legislation other than the General Appropriation Act. Individual bills containing appropriations must be heard by the Finance, Ways and Means Committee, and may be heard by the relevant standing committee, in each House of the General Assembly. After all relevant committees recommend passage, bills containing appropriations must be approved by a majority vote in each House of the General Assembly and must be acted upon by the Governor. Bills of this character are also subject to reduction or elimination by individual line-item veto by the Governor, subject to further override by the General Assembly as described above.

Budgets and appropriations may be revised and amended from time-to-time during a fiscal year for a variety of reasons, including to assure that the fiscal year ends with a balanced budget. Consequently, there can be no assurance that any budget document will not be subsequently amended.

Funds necessary to meet an appropriation need not be in the Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Development of Revenue Estimates

The development of the general fund revenue estimates begins with a forecast of national economic activity for the State budget period. The State currently contracts with The University of Tennessee's Boyd Center for Business and Economic Research (the "Boyd Center" formerly known as "UT-CBER") to prepare an annual Economic Report to the Governor containing short-term business cycle-sensitive forecasts as well as longer-term or trend forecasts for the year and to prepare quarterly updates throughout the year. The Boyd Center subscribes to the macroeconomic forecasting services of Global Insight. The Global Insight forecast becomes the principal input to the Tennessee Econometric Model which is utilized to develop a forecast of similar indicators of in-state activity.

At least annually, the State Funding Board secures from the Boyd Center the estimated rate of growth of the State's economy as measured by the forecasted change in Tennessee personal income. The State Funding Board reviews the estimated rate of growth in Tennessee personal income and reports to the General Assembly its comments relating to the reasonableness of the estimate, including any different estimate deemed necessary.

The State Funding Board is further directed by statute to conduct public hearings to develop consensus ranges of estimates of State revenue for the current fiscal year and the next succeeding fiscal year. At the hearings, representatives of state higher education institution business centers, including the Boyd Center, present revenue estimates and economic forecasts. The State Funding Board also hears from representatives from the Department of Revenue and the Fiscal Review Committee of the State. On December 1, or as soon thereafter as practical, the State Funding Board presents its consensus ranges of State revenue estimates, and a summary of the economic forecast on which the estimates are based, to the Governor and the Chairs of the Senate and House Finance, Ways and Means Committees. Although not mandated prior to final legislative action on the budget, the State Funding Board may receive updated estimates and forecasts at public hearings in the spring and may forward any revision to prior estimates and the reasons therefor to the Governor and Chairs of the Senate and House Finance, Ways and Means Committees. Pursuant to Section 9-4-5104, Tennessee Code Annotated, the Commissioner of Finance and Administration has the responsibility for preparing the revenue estimates presented in the Recommended Budget.

Reserve for Revenue Fluctuations

In 2013, the General Assembly enacted legislation re-determining the allocation goal for the reserve for revenue fluctuations (the "Reserve" or "Rainy Day Fund") to be eight percent of estimated State tax revenues to be allocated to the general fund and education trust fund. Beginning with the budget for the Fiscal Year 1998-1999 the allocation goal had been five percent. Until the redetermination funding level is achieved, the Governor is to budget an allocation to the Reserve in an amount at least equal to ten percent of the estimated growth in estimated State tax revenues to be allocated to the general fund and education trust fund. Amounts in the Reserve may be utilized to meet State tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of $100 million or one-half (1/2) of the amount available in the Reserve may be used by the Commissioner of Finance and Administration to meet expenditure requirements in excess of budgeted appropriation levels. Prior to using any amounts in the Reserve for this purpose, the Commissioner shall notify the Secretary of the State Funding Board and the Chairs of the Finance, Ways and Means Committees of the Senate and the House of Representatives that the Reserve funds are to be used for this purpose. The Commissioner shall report information concerning the need to utilize these funds to the various committees.

The Reserve balance at the end of each of fiscal years 2011 through 2015, the estimated balance for fiscal year 2016 and the projected balance at the end of the 2017 fiscal year, respectively, are as follows:

Fiscal Year Ended	Balance	
June 30, 2011	$ 283,600,000	
June 30, 2012	306,000,000	
June 30, 2013	356,000,000	
June 30, 2014	456,000,000	
June 30, 2015	491,500,000	
June 30, 2016	568,000,000	*
June 30, 2017	668,000,000	**

* Estimated and unaudited
**Budgeted

The Reserve is estimated to have increased by $76.5 million for the fiscal year ending June 30, 2016 and budgeted to increase by an additional $100.0 million for the fiscal year ending June 30, 2017. The statutory goal is for the Reserve to be eight percent of estimated State tax revenues to be allocated to the general fund and education trust fund. The State can give no assurance that the budgeted increase in the Reserve for the fiscal year ending June 30, 2017 will be achieved. See "STATE FINANCES - Financial Information and Budget Summary for Fiscal Years 2015-2016 and 2016-2017".

Budgeting for Authorized and Unissued Debt

The State's current practice is to annually budget for five percent of all authorized and unissued general obligation bonds, including bonds authorized and not expected to be issued as described in "Authorized and Unissued Bonds" above, to account for assumed principal redemption (on the basis of an assumed 20-year, level-principal issue), plus an amount for assumed interest currently at a rate of six percent annually. The State cannot offer any assurance that it will continue this practice in the future.

Financial Control Procedures

The State Constitution requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligation, for that year.

Generally, the executive branch controls the expenditure of State funds for the operation of State government. Two important concepts are involved in the execution of the General Appropriation Act: preparation of work programs and development of allotment controls. Analysts of the Division of Budget, Department of Finance and Administration, and fiscal personnel in the various State departments and agencies have the responsibility of reconciling the General Appropriation Act, as approved, with the submitted Recommended Budget. State law requires that administrative agencies prepare a work program for each fiscal year. These work programs indicate separate annual spending requirements for payroll and other operating expenses necessary to carry out agency programs. The head of any agency may revise the work program during the fiscal year because of changed conditions and submit such revision for approval. If the Commissioner of Finance and Administration and the Governor approve the revision, then the same procedure for review, approval and control is followed as in making the original allotments. The aggregate of all allotments after the revision cannot exceed the total appropriations made to the agency for the fiscal year in question.

All expenditures of State administrative agencies are processed through the Department of Finance and Administration and are measured against work program allotments. Savings which may occur as a result of the difference between the amounts provided in the work program allotments for payroll and other operating expenditures and the amounts actually spent for those expenditures accumulate throughout the fiscal year unless a work program is revised to re-allot unspent amounts. Likewise, departmental revenue surpluses cannot be spent until approved by the Commissioner of Finance and Administration and, in some cases, reviewed by the Finance, Ways and Means Committees of the General Assembly. Such central spending control offers executive flexibility relative to any anticipated surplus or shortfall in the budget.

The Governor may effect spending reductions to offset unforeseen revenue shortfalls or unanticipated expenditure requirements for particular programs. These spending reductions can take the form of deferred equipment purchases, hiring freezes, and similar cutbacks. If necessary, the Governor may reduce portions of administrative budgets prior to allotment. Furthermore, the Governor is authorized to call special sessions of the General Assembly at any time to address financial or other emergencies.

TRANs may be issued to fund operating expenses. However, the State has not heretofore issued TRANs and has no current intent to do so. See "STATE INDEBTEDNESS - Tax Revenue Anticipation Notes" above for a description of restrictions on issuance of TRANs for this purpose.

Financial Information and Budget Summary for Fiscal Years 2015-2016 and 2016-2017

Financial Information

The fiscal year 2016-2017 Recommended Budget, as presented by the Governor to the General Assembly on February 1, 2016, projected recurring growth in total taxes of \$386.2 million, or 3.00%, and recurring growth in the general fund of \$348.9 million, or 3.25%, above fiscal year 2015-2016 estimates.

As discussed under "Development of Revenue Estimates" above, the State Funding Board periodically reviews and revises revenue estimates for budgeting purposes. The State Funding Board met on November 13, 2015, to hear and discuss updates on economic and revenue projections for the remainder of fiscal year 2015-2016 and to project revenue estimates for fiscal year 2016-2017. The State Funding Board reconvened on November 23, 2015, and adopted the following revised consensus tax revenue recurring growth projections for the 2015-2016 fiscal year (growth measured against actual results for the 2014-2015 fiscal year, as set forth in the following table) and for the 2016-2017 fiscal year (recurring growth measured against the potential range of results for the 2015-2016 fiscal year, as set forth in the following table):

	Fiscal Year 2014-2015 Results		Fiscal Year 2015-2016		Fiscal Year 2016-2017	
			Low	High	Low	High
Total State Taxes	$	12,439,377,000	2.80%	3.30%	2.50%	3.00%
General Fund Only	$	10,382,963,600	2.90%	3.40%	2.75%	3.25%

The fiscal year 2016-2017 Recommended Budget was based on these consensus revenue estimates.

The State Funding Board is scheduled to convene in November or December 2016 to hear and discuss updates on economic and revenue projections for the remainder of fiscal year 2016-2017 and to project revenue estimates for fiscal year 2017-2018. The Board may schedule additional meetings at its discretion.

On an accrual basis, June is the eleventh month of fiscal year 2015-2016. Total state tax collections for the eleven months (August through June) were $911.2 million above the July 1, 2015 budgeted estimate, and collections for the general fund were $841.1 million above the budgeted estimates. Collections for the four other funds that share tax revenue proceeds were $70.1 million more than the July 1, 2015 budgeted estimates. Collections are unaudited and subject to final accrual adjustments. The Rainy Day Fund balance is estimated to be $568.0 million at June 30, 2016 and projected to be $668.0 million at June 30, 2017. See "STATE FINANCES – Reserve for Revenue Fluctuations".

Fiscal Year 2016-2017 Budget Summary

As shown in the Recommended Budget, the fiscal year 2016-2017 budget is based on a recurring growth rate in total taxes of 3.00%. General Fund recurring cost increases total $721.2 million, much of which is used to fund salary and benefits, program and inflationary growth in TennCare, the Basic Education Program, Higher Education, capital improvements, and capital maintenance. For the 2016-2017 Recommended Budget to remain balanced, State programs are reduced by an average of 0.7% for a total of $38.0 million. Recurring appropriations are funded by recurring revenues. The Rainy Day Fund balance is budgeted to increase to $668 million after an additional deposit of $100 million. For a further description of the 2016-2017 Recommended Budget, see "Budgetary Sources and Uses" section below.

The capital budgets as amended and approved by the General Assembly for fiscal year 2015-2016 and the Recommended Budget for fiscal year 2016-2017 are as follows:

	Fiscal Year	
	2015-16	2016-17
State Current Funds	$ 135,361,200	$ 355,926,600
Federal Funds	9,872,500	12,891,500
General Obligation Bonds (excl. Hwy. Imp.)	437,600,000	0
Highway Improvement Bonds	83,800,000	87,700,000
Other Miscellaneous Funds	69,990,500	60,411,000
Facilities Revolving Fund	200,920,000	152,220,000
Total	$ 937,544,200	$ 669,149,100

Bonds have not been issued for highway improvements or for the Tennessee transportation infrastructure improvement program since 1977, and there is no current intent to do so; however, there can be no assurance that this practice will continue. Bonds for these purposes are authorized for contractual purposes and authorizations are canceled when construction projects are completed.

TennCare Program

The TennCare Medicaid expansion program was launched in 1994. The TennCare program operates under a Section 1115 waiver from the Centers for Medicare and Medicaid Services ("CMS") in the United States Department of Health and Human Services as a managed care program. Medicaid waiver programs are time-limited. The waiver under which TennCare is now operating began on July 1, 2002, and has been extended through June 30, 2016. An extension request is pending with CMS to extend the waiver through June 30, 2021.

TennCare services are offered through managed care entities. Medical, behavioral and long-term care services are covered by "at risk" Managed Care Organizations ("MCO") in each region of the State. Enrollees have their choice of MCOs serving the areas in which they live, except that some enrollees are assigned to TennCare Select. TennCare Select is a managed care plan for certain populations such as children in State custody and enrollees who may be living temporarily out-of-state. In addition to the MCOs, there is a pharmacy benefits manager for coverage of prescription drugs and a dental benefits manager for provision of dental services to children under age 21 and some persons over 21 that have an intellectual or developmental disability (beginning July 1, 2016). Coordination of care is the responsibility of the enrollee's primary care provider in his or her MCO. Long-term care services are provided in nursing facilities for elderly persons and in intermediate care facilities for persons with intellectual or developmental disabilities, as well as by home and community based services providers. These services had been "carved out" of TennCare and paid for by the State through a fee-for-service arrangement. However, in 2010, the State implemented the TennCare "CHOICES in Long-Term Care Program" which brought long-term care services for persons who are elderly and physically disabled into the managed care program.

The Bureau of TennCare within the Tennessee Department of Finance and Administration is the State agency charged with the responsibility for administering the TennCare program. In addition to overseeing the contracts with the managed care entities and overseeing the long-term care program, the Bureau of TennCare is responsible for payment of Medicare premiums, deductibles, and/or coinsurance for certain low-income Medicare beneficiaries.

The TennCare program currently has approximately 1.5 million enrollees consisting of approximately 880,000 children and approximately 620,000 adults. For fiscal year 2016-2017, the State budgeted additional funds to recognize the increases in enrollment since January 2014. The 2016-2017 TennCare budget is $10.85 billion, including federal funds, and is 31.2% of the total 2016-2017 Recommended Budget. Excluding federal funds, the cost of the TennCare program is budgeted to be 21.6% of the total State tax collections.

In fiscal year 2015-2016, the TennCare Reserve is anticipated to be $193.9 million and is equal to 5.7% of the State funds contributed to the TennCare program. Historically, the TennCare Reserve was $267.7 million in fiscal year 2014-2015; $306.9 million in fiscal year 2013-2014; $306.9 million in fiscal year 2012-2013; $115.6 million in fiscal year 2011-2012; $234.7 million in fiscal year 2010-2011; and $442 million in fiscal year 2009-2010. The TennCare Reserve is not statutorily required and there can be no assurance that the TennCare Reserve will be available for use in the TennCare program.

Federal Funding of Certain Programs

Approximately 38% of the State budget is funded by federal aid. The U.S. Budget Control Act of 2011 (U.S. Public Law 112-25) (the "Budget Control Act") established mechanisms to restrain federal spending and decrease the projected federal deficit through the year 2021. Automatic across-the-board reductions in federal programs originally were scheduled to occur on January 2, 2013, but were delayed until March 1, 2013, by the American Taxpayer Relief Act of 2012 (U.S. Public Law 112-240). Some major programs are held harmless and not subject to the across-the-board reduction. The held-harmless programs include Medicaid (TennCare), Children's Health Insurance program (CoverKids), Temporary Assistance for Needy Families, Supplemental Nutritional Assistance program (formerly Food Stamps), and various food and nutrition programs, foster care and adoption assistance, and various highway and transportation programs. An estimated 87% of federal aid to the State of Tennessee was not subject to the across-the-board reduction. In the 13% of federal aid that was subject to reduction, the State reduced budgeted expenditures from federal aid sources by $71.8 million in 242 programs. Of the $71.8 million reduced, 51% of the reduction occurred in K-12 Education ($36.3 million). The Department of Health was reduced $12.7 million (18% of the total). The balance of the reductions occurred in other departments. In all instances, State funds were not used to replace a reduction in federal funding. To maintain a balanced budget, program budgets were adjusted accordingly. The Bipartisan Budget Act of 2015

(U.S. Public Law 114-74) raised the discretionary program spending caps in federal fiscal years 2016 and 2017 while also extending the imposition of sequestration spending caps beyond 2021 to federal fiscal year 2025. As a result, there are no additional sequestration reductions of federally funded programs in state fiscal years 2015-2016 or 2016-2017. The State will continue to monitor Congressional action on federal aid appropriations to assess fiscal impacts to the State budget.

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Budgetary Sources and Uses of Funds

The following tables compare budgetary sources and uses of funds for fiscal years 2015-2016 and 2016-2017:

2016-2017 Budget Document
2015-2016 Estimated Budget Compared to
2016-2017 Estimated Budget
Sources of Funds

	Estimated Budget FY 2015-2016		Estimated Budget FY 2016-2017		Difference
Tax Revenue - Revised Estimate					
Sales and Use Taxes	$ 8,008,200,000		$ 8,280,100,000		$ 271,900,000
Other Taxes - Department of Revenue	4,878,500,000		4,966,000,000		87,500,000
2016 Department of Revenue Tax Legislation	-		(23,065,900)		(23,065,900)
Other Miscellaneous Revenues	1,985,058,000		1,999,023,000		13,965,000
Tobacco Funds	144,600,000		143,800,000		(800,000)
Lottery for Education Funds	346,200,000		339,800,000		(6,400,000)
Debt Service Fund Transfer	102,500,000	*	-		(102,500,000)
Reserve Transfers and Adjustments	55,444,754	*	685,060,300	*	629,615,546
Reversion - Overappropriation	86,807,800	*	89,838,100	*	3,030,300
Rainy Day Fund Transfer	(76,500,000)	*	(100,000,000)	*	(23,500,000)
Sub-Total	**$ 15,530,810,554**		**$ 16,380,555,500**		**$ 849,744,946**
Federal Funds	$ 12,792,948,400		$ 13,222,725,100		$ 429,776,700
Current Services and Other Revenues	3,335,600,300		3,323,403,800		(12,196,500)
Tuition and Student Fees	1,769,235,800		1,769,235,800		-
Bonds	521,400,000		87,700,000		(433,700,000)
Total	**$ 33,949,995,054**		**$ 34,783,620,200**		**$ 833,625,146**
* Reserves, Transfers and Reversion[1]	$ 168,252,554		$ 674,898,400		$ 506,645,846

[1] Reserves are funds transferred to the general fund as authorized by the General Appropriations Act. Reserves also includes funds reserved for appropriation in the following fiscal year. Transfers are funds transferred to the general fund for specific purposes. Reversion is the estimated budget surplus remaining at the end of a fiscal year.

2016-2017 Budget Document
2015-2016 Estimated Budget Compared to
2016-2017 Estimated Budget
Uses of Funds

	Estimated Budget FY 2015-2016	Estimated Budget FY 2016-2017	Difference
General Government	$ 1,035,402,600	$ 1,218,297,700	$ 182,895,100
Education	10,020,343,000	10,413,273,900	392,930,900
Health and Social Services	15,427,902,100	15,848,353,400	420,451,300
Law, Safety, and Correction	1,690,170,554	1,720,602,000	30,431,446
Resources and Regulation	950,237,800	933,666,100	(16,571,700)
Business and Economic Development	632,853,900	594,936,100	(37,917,800)
Total General Fund	**$ 29,756,909,954**	**$ 30,729,129,200**	**$ 972,219,246**
Transportation	$ 1,805,134,400	$ 1,877,981,400	$ 72,847,000
Debt Service Requirements	408,600,000	425,054,000	16,454,000
Capital Outlay Program	652,824,200	429,229,100	(223,595,100)
Facilities Revolving Fund	324,726,500	296,026,500	(28,700,000)
Cities and Counties - State Shared Taxes	1,001,800,000	1,026,200,000	24,400,000
Total State Budget All Programs	**$ 33,949,995,054**	**$ 34,783,620,200**	**$ 833,625,146**

Investment Policy

The State Funding Board is charged with the establishment of policy guidelines for the investment of State funds. The State Treasurer is responsible for the management of the State Pooled Investment Fund (the "SPIF") (which includes the State's cash, various dedicated reserves and trust funds of the State, and the Local Government Investment Pool) and the Intermediate Term Investment Fund (the "ITIF"), a longer term investment option.

The primary investment objective for the SPIF is safety of principal, followed by liquidity and yield. No investments may be purchased with a remaining maturity of greater than 397 calendar days and the weighted average maturity cannot exceed 120 days. Investment instruments authorized by the Investment Policy for the SPIF approved by the State Funding Board pursuant to Section 9-4-602, Tennessee Code Annotated, for purchase by the SPIF include (1) bonds, notes and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies; (2) repurchase agreements for obligations of the United States or its agencies; (3) certificates of deposit in banks and savings and loan associations recognized as state depositories pursuant to Section 9-4-107, Tennessee Code Annotated; provided, however, certificates of deposit shall be collateralized in accordance with the provisions of Tennessee Code Annotated; (4) prime commercial paper that is rated in the highest category by at least two nationally recognized commercial paper rating agencies; (5) prime bankers' acceptances that are eligible for purchase by the Federal Reserve System; and (6) securities lending agreements whereby securities may be loaned for a fee; provided, however, eligible collateral as defined in Section 9-4-103, Tennessee Code Annotated, whose market value is at least equal to one hundred two percent (102%) of the market value of the borrowed securities shall be required for each loan and for purposes of this provision, eligible collateral shall include cash collateral, which shall be equal to at least one hundred percent (100%) of the market values of the borrowed securities. For each type of investment, certain terms and conditions must be met. All book entry securities purchased are held by the Federal Reserve Bank in the State Trust of Tennessee Account, or held by a custodian pursuant to a custodian agreement. Securities not eligible for book entry at the Federal Reserve Bank are held by a custodian pursuant to a custodian agreement.

The ITIF portfolio is intended to be a longer-term investment option to the SPIF. The ITIF is actively managed and is designed to invest in longer-term instruments in order to benefit from the normal steepness of the yield curve. The dollar weighted average maturity of the ITIF shall not exceed 3 years. An appropriate amount of the fund is maintained in short term investments to cover emergency withdrawals. No security will be purchased with a remaining life of over five years. Investment instruments authorized by the Investment Policy for the ITIF approved by the State Funding Board pursuant to Section 9-4-602, Tennessee Code Annotated, for purchase by the ITIF include: (1) bonds, notes and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies; (2) obligations guaranteed as to principal and interest by the federal home loan mortgage corporation, federal national mortgage association, student loan marketing association and other United Stated government-sponsored corporations; (3) repurchase agreements for obligations of the United States or its agencies; (4) prime commercial paper that is rated in the highest category by at least two nationally recognized commercial paper rating agencies; and (5) prime bankers' acceptances that are eligible for purchase by the Federal Reserve System. For each type of investment, certain terms and conditions must be met. All book entry securities purchased are held by the Federal Reserve Bank in the State Trust of Tennessee Account, or held by a custodian pursuant to a custodian agreement. Securities not eligible for book entry at the Federal Reserve Bank are held by a custodian pursuant to a custodian agreement.

The State Trust of Tennessee, a non-profit corporation established in 1979, is a limited member of the Federal Reserve Bank System.

In addition to the funds in the SPIF and the ITIF, TCRS (a pension trust fund), the Baccalaureate Education System Trust (a private-purpose trust), and the Chairs of Excellence Trust (a permanent fund) are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, and real estate subject to the approval of the applicable boards of trustees. See "Appendix A - Financial Statements" - Note 5A "Deposits and Investments".

Accounting Standards

The Governmental Accounting Standards Board ("GASB") is the body responsible for promulgating accounting and financial reporting standards that are followed by state and local governments desiring to present financial statements in accordance with generally accepted accounting principles ("GAAP"). The State adheres to GASB rules and issues audited financial statements in conformity with GAAP.

Other Post-Employment Benefits

In 2004, GASB issued Statements Nos. 43 and 45 that provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB").

State employees and teachers who meet specified criteria receive pension benefits provided to retirees through a defined benefit plan administered by TCRS. In addition to retirement benefits, certain qualified retirees may continue participation in health insurance sponsored by the State. Retirees who are not yet eligible for Medicare have access to the same benefits as current employees and pay monthly premiums that vary by years of service at retirement. The State has the flexibility to adjust the benefits and premium sharing provisions provided by insurance plans on an annual basis. After age 65, retirees may participate in a Medicare supplemental plan. The State's financial support to this supplemental plan is a fixed amount based on years of service.

The current actuarial valuation of post-employment medical benefits, as of July 1, 2013, was completed during fiscal year 2014. These and the previous studies were conducted using a projected unit credit actuarial cost method and focused on individual employers within each plan. The State's obligations resulting from the July 1, 2013 study are summarized below. The annual required contribution ("ARC") consists of the normal cost (the portion of the actuarial present value for OPEB benefits which is allocated to a valuation year by the actual cost method) and an amortization of the unfunded actuarial liability.

	As of June 30, 2015 (unaudited) (expressed in thousands)	
	Unfunded Actuarial Liability	**ARC**
State Employee Group Plan		
State obligation for employees (including Component Units)	$ 1,225,112	$ 126,934
Local Education Agency Group Plan		
State obligation on behalf of teachers	294,798	31,435
Medicare Supplement Plan		
State obligation for employees (including Component Units)	154,051	11,759
State obligation on behalf of teachers	137,317	9,510
Total State Obligation	$ 1,811,278	$ 179,638

The actuary reports may be reviewed at: http://www.tn.gov/finance/article/fa-accfin-opeb. The State has contracted with Gabriel Roeder Smith and Company to provide biennial OPEB valuations for the State Employee Group, Teacher Group, Local Government Group and Medicare Supplement plans for fiscal years ended June 30, 2014 through June 30, 2018. The next valuation, as of July 1, 2015, that will cover fiscal years 2015-2016 and 2016-2017, is expected to be received in late summer.

This data was reported in the State's Comprehensive Annual Financial Report ("CAFR") for fiscal year 2014-2015. For fiscal year 2014-2015, the State did not fund any actuarially determined OPEB liability and expects to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the current fiscal year. Both active employees and pre-age 65 retirees are offered the same health care plan options. The State has the flexibility to adjust the various plan options on an annual basis. It will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

During the 2015 Legislative Session, the General Assembly enacted Public Chapter 426, which, among other things, established an investment trust or trusts (the "Trust") for the purpose of pre-funding other post-employment benefits accrued by employees of the State, to be paid as they come due in accordance with arrangements between the State, the plan members and their beneficiaries. The trustees (the "Trustees") of the Trust are the Commissioner of Finance and Administration, the chair of the Finance, Ways and Means Committee for the Senate, the chair of the Finance, Ways and Means Committee for the House of Representatives, and the State Treasurer, in his capacity as chair of the board of TCRS. The Trustees must adopt, in writing, an investment policy or policies authorizing how assets in the Trust may be invested. The Trust may invest in any security or investment in which TCRS is permitted to invest; provided, that investments by the Trust shall be governed by the investment policies and guidelines adopted by the trustees. By statute, the state treasurer has the responsibility to invest and reinvest Trust funds in accordance with the policies and guidelines established by the Trustees and to administer the Trust. The initial funding for the Trust is to be from moneys appropriated by the General Assembly for such purpose. As of the date of this Official Statement, no such appropriation has been made.

Financial Reporting and Budgeting Awards

The Government Finance Officers Association of the United States and Canada (the "GFOA") has awarded Certificates of Achievement for Excellence in Financial Reporting to the State for its comprehensive annual financial report for the fiscal years ended June 30, 1979 to June 30, 2008, thirty consecutive years. The State did not receive the award for the fiscal year ended June 30, 2009 due to the implementation of a new accounting system that delayed the report but did receive the award again for fiscal years ended June 30, 2010 to June 30, 2015. TCRS was also awarded a Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the twenty-eighth consecutive year that TCRS received this award. To be awarded a Certificate of Achievement for Excellence, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA also presented its Distinguished Budget Presentation Award to the State for its annual budget for the fiscal years ended June 30, 1992 through June 30, 1995 and June 30, 1998 through June 30, 2016. To receive this award, a governmental unit must publish a Budget Document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Introduction

TCRS was established in 1972 as a trust to provide a defined benefit pension plan that covers three large groups of public employees - state employees, (including higher education employees), teachers, and employees of participating local governments. The State is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees and to those higher education employees that elect to participate in TCRS to the extent such obligation is not covered by employee contributions and investment earnings. State and higher education employees hired on or before June 30, 2014 have been non-contributory since July 1, 1981. State and higher education employees hired on or after July 1, 2014 became members of a new retirement plan that provides both a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary to the defined benefit plan component of the new plan. The plan provisions of the closed plan and the new plan are described in "General Plan Provisions". State employees and higher education employees are combined for actuarial and financial obligation purposes. Such obligation is funded by employer contributions as determined by an actuarial valuation. The state employee group includes general employees, judicial employees, and public safety employees.

The State is not directly responsible for the pension benefits provided to teachers (grades K-12) or local government employees. However, the State does provide funding to Local Education Agencies ("LEAs") to assist in the funding of a system of education in Tennessee. Funds provided by the State to LEAs may be used to finance the employer pension contributions of LEAs to TCRS.

TCRS is governed by a Board of Trustees that is responsible for the general administration and operations of TCRS within the requirements and provisions of State statutes. The Board is composed of nine ex-officio members (of which two are non-voting), nine representatives of the active TCRS membership, and two representatives for retirees. The ex-officio members include the chair and vice-chair of the legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State, the Administrative Director of the Courts, the State Treasurer (sits as the Chair), and the Director of TCRS (sits as the Secretary). The employee representatives consist of three teachers (one from each grand division of the State who are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives), two state employees from departments other than those represented by ex-officio members (elected by state and higher education employees for three-year terms), one public safety officer (appointed by the Governor for a three-year term), three representatives of local governments (appointed by the Tennessee County Services Association, the Tennessee Municipal League, and the Tennessee County Officers Association for two-year terms), a retired teacher (appointed by the Speaker of the House of Representatives for a three-year term), and a retired state or higher education employee (appointed by the Governor for a two-year term). All employee representatives must be vested members of TCRS.

By statute, an actuarial valuation of TCRS is to be conducted at least once in every two-year period. Pursuant to the funding policy adopted by the Board of Trustees on September 26, 2014, an actuarial valuation will be conducted annually as of each June 30th for both accounting purposes and funding purposes. The latest actuarial valuation was performed as of June 30, 2015. The next valuation will be as of June 30, 2016 and each succeeding June 30th thereafter. The TCRS Board of Trustees certifies to the Governor each year the amount necessary to fund the Actuarially Determined Contribution ("ADC") for state and higher education employees, and by statute the General Assembly is required to appropriate such amount. Thus, for each year since 1972, the State has paid to TCRS 100% of the ADC for state and higher education employees. The ADC represents the amount necessary to fund the normal cost (the cost of current service being accrued), the amortized amount of the unfunded accrued liabilities, and the cost of the administration of TCRS pursuant to the actuarial methodology described herein. The State has not generally waived immunity from suit or extended its consent to be sued, and sovereign immunity and other legal principles may bar actions to compel the General Assembly to appropriate moneys in the future for such purposes. Beginning July 1, 2014, the term ADC replaced the term annual required contribution ("ARC") but ADC is essentially the same as the ARC.

The net pension liability at June 30, 2015 was $1,289,282,439 for the closed state and higher education employees plan. The plan fiduciary net position as a percentage of the total pension liability was 91.26% at June 30, 2015, calculated in accordance with GASB Statement No. 68 ("GASB 68"). The funded ratio was 95.11% at June 30, 2014. Before 2014, the funded ratio was calculated pursuant to GASB Statement No. 27 ("GASB 27") and was based on the funding methodology of TCRS which was determined every two years. The funded ratio for the years before 2014 was actuarial value of assets divided by actuarial accrued liability. Based on GASB 27, the funded ratios were 89.4% for 2013, 88.30% for 2011, 86.32% for 2009, 90.93% for 2007, and exceeded 99% for the years 2005, 2003 and 2001. In most years before 2014, the funded ratio would have been lower if based on market value of assets. The new pension plan for employees hired on or after July 1, 2014 is a legally separate agent plan pursuant to GASB 68. A separate set of accounting and actuarial records is maintained for this plan. At June 30, 2015, the funded ratio of the new plan was 142.5% with fiduciary net position exceeding total pension liability by $2.780 million.

The amounts and percentages set forth in this section relating to TCRS are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, post-employment mortality, active member mortality and rates of retirement. Prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, prospective purchasers of the Bonds are cautioned that such sources and the underlying assumptions are reflective as of their respective dates and are subject to change. Prospective purchasers of the Bonds should also be aware that some of the information presented in this sectin contains forward-looking statements and the actual results of TCRS may differ materially from the information presented herein.

General Information

TCRS was established effective July 1, 1972 by Public Chapter 814, Acts of 1972. Tennessee Code Annotated Section 8-34-202 provides that TCRS has the powers, privileges and immunities of a corporation and that all of its business shall be transacted, all of its funds invested, and all of its cash and other property held in trust for the purpose for which received. By statute, the general administration and responsibility for the proper operation of TCRS are vested in a twenty-member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

State and higher education employees must become members of TCRS except that higher education employees exempt from the Federal Fair Labor Standards Act may waive membership in TCRS and elect to participate in the Optional Retirement Program ("ORP"), a defined contribution plan. The State is ultimately responsible for the financial obligation of benefits provided by TCRS to those state employees and higher education employees participating in TCRS to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation. The ORP is described in the section "Other Retirement Programs".

Public school teachers in grades K-12 are members of TCRS. The more than 142 local school systems in Tennessee, referred to as Local Education Agencies ("LEAs"), are responsible on a cost sharing basis for the financial obligation of the benefits provided by TCRS to K-12 teachers to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by LEA employer contributions as determined by an actuarial valuation. LEAs do not have taxing authority. The local governing body of a LEA and the State provide funding to LEAs to finance the cost of providing a system of education for the children of the State. The State's education funding formula includes an amount to be used toward some, but not all, of a LEA's pension cost (LEA's employer contributions to TCRS). For TCRS purposes, the teacher group includes certificated teachers and does not include non-teaching personnel such as bus drivers, cafeteria workers, maintenance employees, custodians, and secretaries.

Local governments may join TCRS as a participating employer in order to provide pension benefits for their employees. However, each local government is responsible for the financial obligation of the benefits provided by TCRS to their employees to the extent such obligations are not covered by their employee contributions and investment earnings. The State is not responsible for the liability associated with local governments participating in TCRS. Local governments participating in TCRS include cities, counties, special school districts, utility districts, emergency communication districts, and other political subdivisions of the State. At June 30, 2015 there were 497 local governments in the TCRS plan. Employees of local governments could include general employees, non-teaching employees of a school system, transportation department employees, public safety employees, utility employees, and employees of other departments of the local government.

State employees and higher education employees are combined for actuarial and financial obligation purposes, and the State is considered an agent employer pursuant to GASB 68. LEAs are combined into a teacher cost-sharing group pursuant to GASB 68 for actuarial and financial obligation purposes. Each participating local government in TCRS is maintained separately for actuarial and financial obligation purposes and is considered an agent employer pursuant to GASB 68. However, the assets of all public employee groups participating in TCRS are commingled for investment purposes with each group receiving its pro rata share of investment gains and losses.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two-year period. Pursuant to the funding policy adopted by the Board of Trustees on September 26, 2014, an actuarial valuation will be conducted annually each June 30th for both accounting purposes and funding purposes. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate. Before 2015, an actuarial valuation was performed every other year for funding purposes. Beginning on June 30, 2015, actuarial valuations will be performed annually for both accounting purposes and funding purposes with the results available in late December of each year. It has been TCRS' practice to conduct an actuarial audit every ten years, the last audit being completed effective with the 2009 valuation. The new funding policy continues this practice. By statute, an actuarial experience study shall be conducted at least once every six years to establish demographic assumptions (pattern of retirement, turnover, mortality, etc.) and economic assumptions (investment earnings rate, salary, retiree cost of living, etc.). Pursuant to the funding policy adopted by the TCRS Board of Trustees, an actuarial experience study will be conducted every four years. The last experience study was conducted in 2012 and the next will be performed in 2016, with the results available in mid-year of 2017.

TCRS issues audited financial statements on an annual basis. By statute, an independent audit is conducted by the Comptroller of the Treasury, an office established by the State's Constitution. The Comptroller of the Treasury is a part of the legislative branch of State government and is accountable to the General Assembly. The financial statements are prepared in conformity with generally accepted accounting principles in the United States of America.

The Comptroller of the Treasury performed the audit of the most recent financial statements of TCRS as of June 30, 2015. The latest actuarial valuations for funding and accounting purposes (as of July 1, 2015), and actuarial experience study (June 30, 2012) were performed by the actuarial and consulting firm of Bryan, Pendleton, Swats, & McAllister. The latest actuarial audit (July 1, 2009) was performed by the actuarial and consulting firm of Gabriel, Roeder, Smith, & Company. Such reports are available on the Tennessee Treasury website at www.treasury.tn.gov/tcrs.

By statute, the TCRS Board of Trustees certifies to the Governor each year the amount necessary to finance the actuarially determined employer contributions ("ADC") for state employees and higher education employees, as well as the amount required to cover the expenses of administering the retirement system. By statute, the General Assembly shall make appropriations sufficient to provide for the actuarially required employer contributions for state employees and higher education employees. A separate certification is provided for the amount necessary for LEAs to finance the pension liabilities associated with the teacher group. An actuarially determined employer contribution rate is provided to each local government participating in TCRS.

As of June 30, 2015 the membership in TCRS was as follows:

	Active Employees	Inactive Employees or Beneficiaries Currently Receiving Benefits	Inactive Employees Entitled to but not yet Receiving Benefits	Total
State Employees and Higher Education Employees				
Closed Plan	52,578	51,874	39,243	143,695
New Plan	5,402	-	1,238	6,640
Total	57,980	51,874	40,481	150,335
Teachers				
Closed Plan	69,125	47,979	30,259	147,363
New Plan	5,524	-	540	6,064
Total	74,649	47,979	30,799	153,427

General Plan Provisions

Closed pension plan for employees hired on or before June 30, 2014

The description under this section applies to employees hired on or before June 30, 2014; the plan was closed to new membership on June 30, 2014. Employees, whether vested or non-vested, as of June 30, 2014, continue to accrue benefits under these benefit provisions.

State employees (including higher education employees) and teachers are vested upon completing five years of employment. Eligibility for a retirement benefit is either age 60 and vested or at any age after 30 years of service credit. A reduced benefit is available at age 55. Disability benefits are available after five years of employment if the member is totally and permanently disabled and cannot engage in gainful employment. Death benefits are available under certain conditions.

The benefit provided by TCRS is a mathematical formula that uses a member's highest consecutive five year average salary and a member's years of creditable service. The formula is a multi-step calculation that provides a benefit that, stated in a simplified manner, is somewhat less than 1.6% of the member's five year average salary multiplied by years of service. For example, a thirty-year employee will receive approximately 48% of his or her five year average salary.

Retirees are entitled to Cost of Living Adjustments ("COLA") after retirement. As required by Section 8-36-701, Tennessee Code Annotated, cost of living adjustments are made every July 1 for retirees who have been retired at least 12 months and if the consumer price index (all items-United States city average as published by the U.S. Department of Labor) increases by more than 0.5%. If the consumer price index increases between 0.5% and 1%, the increase granted is 1%. Otherwise, the adjustment is the actual increase in the consumer price index except that the COLA is capped at a maximum of 3%.

State employees and higher education employees hired on or before June 30, 2014, are non-contributory. Teachers are required to contribute 5% of salary. Separate accounting and actuarial records are maintained for each group.

There are not any cost controls or unfunded liability controls for the closed plan.

Defined benefit pension plan for employees hired on or after July 1, 2014 as a component of the New Plan

Employees hired on or after July 1, 2014 became members of a new plan that consists of two components, a defined benefit plan and a defined contribution plan. The defined contribution component is described in the section "Other Retirement Programs". The defined benefit component description follows.

State employees (including higher education employees) and teachers are vested upon completing five years of employment. Eligibility for a retirement benefit is either age 65 and vested or under the rule of 90 where a combination of age and service credit totals 90. An actuarially reduced benefit is available at age 60 or the rule of 80. Disability benefits are available after five years of employment if the member is totally and permanently disabled and cannot engage in gainful employment. Death benefits are available under certain conditions.

The defined benefit provided by TCRS is a mathematical formula that uses a member's highest consecutive five year average salary and a member's years of creditable service. The formula provides a benefit equal to 1.0% of the member's five year average salary multiplied by years of service. For example, a 30 employee will receive approximately 30% of his or her five year average salary.

Retirees are entitled to COLA after retirement. As required by Tennessee Code Annotated, Section 8-36-701, COLAs are made every July 1 for retirees who have been retired at least 12 months and if the consumer price index (all items-United States city average as published by the U.S. Department of Labor) increases by more than 0.5%. If the consumer price index increases between 0.5% and 1%, the increase granted is one 1%. Otherwise, the adjustment is the actual increase in the consumer price index except that the COLA is capped at a maximum of 3%.

State and higher education employees hired on or after July 1, 2014, contribute 5% of salary. Since the State is partially financially responsible for state and higher education employees in the new plan, separate accounting and actuarial records are maintained for this group. Teachers are required to contribute 5% of salary.

Since LEAs are partially financially responsible for teachers in the new plan, separate accounting and actuarial records are maintained for this teacher group.

Cost Controls and Unfunded Liability Controls of the New Plan

The new plan was designed so that the maximum employer pension cost is limited to a total of 9% of salary for both the defined benefit plan and the defined contribution plan. The target is that employer contributions will be 4% of salary to the defined benefit plan and that employer contributions to the defined contribution plan will be 5% of salary. Should the actuarially determined employer contribution for the defined benefit plan be less than 4%, the excess will be held by TCRS in a stabilization reserve. When an actuarial valuation is performed and the actuarial rate for the defined benefit exceeds 4%, then a series of cost control steps automatically occur in the following sequence: (1) utilize funds in the stabilization reserve, if any; (2) reduce or suspend the maximum annual COLA; (3) shift some or all of the employer contributions from the defined contribution plan to the defined benefit plan; (4) increase employee contribution by 1% of salary; (5) reduce the benefit accrual factor below 1%; and (6) freeze the plan with no future accruals being earned by employees. These cost controls apply to the state and higher education employees as a group. These same cost controls apply to teachers as a separate group.

The new plan was designed to control the actuarial unfunded liability. If an actuarial valuation determines that the unfunded liability of the new plan for state and higher education employees exceeds 12.5% of the five year average of the state's bond indebtedness, then the same controls set out in the preceding paragraphs will automatically occur. The provision also applies to the teacher group in the new plan.

Investments and Investment Policy

Investment authority is governed by Tennessee Code Annotated, Section 8-37-104, which establishes the types of investments that are permitted. An investment policy is adopted by the Board of Trustees related to the authorized investment types and portfolio structure. The statute also provides for an Investment Advisory Council ("IAC") consisting of at least five investment professionals to provide investment advice to the State Treasurer and the Chief Investment Officer.

The current investment policy adopted by the Board of Trustees is available on the Tennessee Treasury website at www.treasury.tn.gov/tcrs.

The actual allocation of assets and the policy target range at March 31, 2016 are:

Asset Class	Policy Range	Actual Allocation
North American Stock	25-50%	36.0%
Domestic Bonds	20-60%	26.9%
Inflation Indexed Bonds	0-15%	5.7%
Short-term Securities	0-10%	0.4%
International Bonds	0-10%	0.0%
International Stocks	5-25%	17.0%
Private Equity & Strategic Lending	0-10%	6.5%
Real Estate	0-10%	7.5%
		100.0%

The historical annualized rates of return (net of fees) on TCRS investments as of June 30, 2015 are:

1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year
3.33%	9.84%	10.85%	6.45%	5.46%	7.09%	7.64%

The historical annual rates of return (net of fees) on TCRS investments for the last ten years are:

Year Ended June 30	Rate of Return
2015	3.3%
2014	16.7%
2013	9.9%
2012	5.6%
2011	19.6%
2010	10.2%
2009	(15.3)%
2008	(1.2)%
2007	13.2%
2006	6.9%

Investment performance is calculated by the system's general investment consultant, Verus, Inc.

The vast majority of the assets of TCRS are managed internally. The investment division of TCRS, consisting of 28 investment professionals, is responsible for the internal management of the domestic stock, domestic bond, international bond, inflation indexed bond, and short-term securities portfolios. The TCRS staff monitors the eight external investment managers for the international stock portfolio.

TCRS utilizes the services of other investment consultants and advisors including a real estate consultant, real estate advisors, a strategic lending consultant, and a private equity consultant.

Actuarial Methodology for Funding Purposes

The funding policy adopted by the TCRS Board of Trustees provides that the actuarial valuation will be conducted based on the following: entry-age normal actuarial method; 10-year smoothing of assets within a 20% corridor; and level dollar amortization of unfunded liabilities over a closed period not to exceed 20 years. As of June 30, 2015, under the 10-year smoothing of assets methodology net investment gains of approximately $412 million are being deferred. The June 30, 2015 actuarial valuation established the employer contribution rate for the period July 1, 2016 through June 30, 2017.

Economic and Demographic Assumptions

The latest actuarial experience study was conducted in 2012 and determined the economic and demographic assumptions to be utilized in the 2013, 2015, and 2016 actuarial valuations. The next experience study will be conducted in 2016 with the resulting assumptions being utilized in the 2017, 2018, 2019, and 2020 actuarial valuations.

The long term investment earnings assumption of 7.5% is compounded annually. A graded salary increase assumption based on age is utilized with larger increases expected for younger employees and smaller increases for older employees. The salary range begins at 9.0% at age 20 while the upper portion of the range at age 70 is 3.7%. The approximate average salary assumption increase is 4.25%. The social security wage base is assumed to increase 3.5%. The cost of living adjustment for retirees is assumed to increase 2.5% annually. A rate of inflation of 3% is assumed in establishing the economic assumptions. The salary assumption was the only economic assumption that changed from the 2008 experience study to the 2012 experience study. The salary assumption was reduced by 0.5% across all age ranges.

The demographic assumptions include: post-retirement mortality, pre-retirement mortality, withdrawal rate for termination of employment, the marital status of members, the age differences of the married members and their spouses, disability rate, and pattern of retirement. The demographic assumptions are based on the past experience of participants in TCRS.

The demographic assumptions that changed as a result of the 2012 experience study include: (1) post-retirement mortality was changed to reflect improved life expectancy that occurred and to partially anticipate some expected further improvement in life expectancy; and (2) pre-retirement mortality was changed to reflect improved life expectancy that occurred and anticipated projection of further improvements in life expectancy.

Summary of Fiscal Health of TCRS

Funded Status Based on GASB Pension Standards
At June 30, 2015
(dollars expressed in thousands)

Group	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
State & Higher Education Employees						
Closed Plan	$13,457,747	$14,747,029	$1,289,282	91.26%	$2,540,327	50.75%
New Plan	9,317	6,536	(2,781)	142.55%	107,086	(2.60%)
Teachers						
Closed Plan	21,268,085	21,309,048	40,963	99.81%	3,743,502	1.09%
New Plan	18,676	14,653	(4,023)	127.46%	207,773	(1.94%)

Historical Fiduciary Net Position

The available historical fiduciary net position for the last ten years for the state employee and higher education group and the teacher group are shown in the following table:

Historical Market Value of Assets
At June 30
(dollars expressed in thousands)

Year ended June 30	Closed State Employee and Higher Education Employee Plan	New State Employee and Higher Education Employee Plan	Closed Teacher Plan	New Teacher Plan
2015	$13,457,746	$9,317	$21,268,085	$18,676
2014	13,430,683		21,214,637	
2013	11,827,560		18,656,536	
2012	11,070,535		17,426,697	
2011	10,764,495		16,875,007	
2010	9,219,743		14,389,656	
2009	8,586,203		13,359,796	
2008	10,376,878		16,136,072	
2007	10,633,938		16,637,769	
2006	9,485,405		14,930,609	

Historical Funding Progress Based on Market Value of Assets
Closed State and Higher Education Employees Plan
At June 30
(dollars expressed in thousands)

Valuation Year *	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
2015**	$13,457,747	$14,747,029	$1,289,282	91.26%	$2,540,327	50.75%
2014**	13,430,683	14,120,632	689,949	95.11	2,658,354	25.95
2013	11,827,560	13,822,969	1,995,409	85.56	2,489,709	80.15
2011	10,764,495	13,284,473	2,519,978	81.03	2,431,765	103.63
2009	8,586,203	11,936,316	3,350,113	71.93	2,530,585	132.38
2007	10,633,938	11,241,864	607,926	94.59	2,501,095	24.31
2005	8,985,992	9,202,389	216,397	97.65	2,245,692	9.64

* Annual reporting beginning with 2014
** Based on GASB 67 and 68 requirements; Years prior to 2014 - Based on funding methodology

Historical Funding Progress Based on Market Value of Assets
New State and Higher Education Employees Plan
At June 30
(dollars expressed in thousands)

Valuation Year	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
2015*	$9,317	$6,536	($2,781)	142.55%	$107,086	(2.60%)

* New plan began July 1, 2014

Historical Funding Progress Based on Market Value of Assets
Closed Teacher Plan
At June 30
(dollars expressed in thousands)

Valuation Year*	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
2015**	$21,268,085	$21,309,048	$40,963	99.81%	$3,743,503	1.09%
2014**	21,214,637	21,198,387	(16,250)	100.08	3,925,132	(0.41)
2013	18,658,230	20,300,591	1,642,361	91.91	3,747,221	43.83
2011	16,875,007	19,423,152	2,548,145	86.88	3,626,582	70.26
2009	13,359,796	17,118,650	3,758,854	78.04	3,523,942	106.67
2007	16,637,769	15,998,286	(639,483)	104.00	3,241,772	(19.73)
2005	14,185,802	14,646,578	460,776	96.85	3,000,297	15.36

* Annual reporting beginning with 2014
** Based on GASB 67 and 68 requirements; Years prior to 2014 - Based on funding methodology;

Historical Funding Progress Based on Market Value of Assets
New Teachers Plan
At June 30
(dollars expressed in thousands)

Valuation Year	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
2015*	$18,676	$14,653	($4,023)	127.46%	$207,773	(1.94%)

* New plan began July 1, 2014

Cash Flows

Selected Cash Flows
State Employees, Higher Education Employees, and Teachers
(dollars expressed in thousands)

	Cash Inflows		Cash Out Flows		
Fiscal Year	Contributions	Interest and Dividends	Benefits and Refunds	Administrative Cost	Net Cash Flows
2015	$ 948,804	$ 1,056,413	$ 1,885,341	$ 10,345	$ 109,531
2014	959,366	779,544	1,778,888	6,784	(46,762)
2013	932,678	782,794	1,661,602	5,446	48,424
2012	925,549	767,409	1,536,603	4,749	151,606
2011	914,226	740,075	1,434,296	3,525	216,480
2010	769,038	708,925	1,336,574	3,924	137,465
2009	769,714	793,334	1,271,327	3,616	288,105
2008	774,648	928,037	1,167,609	3,711	531,365
2007	738,472	877,122	1,081,995	3,385	530,214

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Projections

The following table provides a projection of expected benefit payment patterns. The projection is based upon the assumptions utilized in preparing the 2013 actuarial valuation. The assumptions include those regarding future salary levels, retirement dates, incidence of disability and mortality and annual cost of living adjustments.

Benefit Payment Projections for TCRS
Based on July 1, 2013 Actuarial Valuation
Includes State Employees, Higher Education Employees, Teachers and Employees of Local Governments
(dollars expressed in thousands)

Year	Current Retirees	Future Retirees	Total
2013	$ 1,937,005	$ 66,807	$ 2,003,812
2014	1,932,550	200,405	2,132,955
2015	1,925,197	335,784	2,260,981
2016	1,914,802	474,772	2,389,574
2017	1,901,219	616,980	2,518,199
2018	1,884,276	764,734	2,649,010
2019	1,863,825	919,830	2,783,655
2020	1,839,741	1,079,768	2,919,509
2021	1,811,897	1,243,050	3,054,947
2022	1,780,173	1,415,060	3,195,233
2023	1,744,468	1,594,440	3,338,908
2024	1,704,708	1,777,281	3,481,989
2025	1,660,851	1,966,371	3,627,222
2026	1,612,850	2,162,100	3,774,950
2027	1,560,692	2,362,871	3,923,563
2028	1,504,416	2,572,593	4,077,009
2029	1,444,126	2,789,741	4,233,867
2030	1,379,985	3,012,246	4,392,231
2031	1,312,210	3,239,968	4,552,178
2032	1,241,098	3,469,424	4,710,522

Actual benefit payments for FY 2013 totaled $1,923,742,000, for FY 2014 totaled $2,060,890,000, and for FY 2015 totaled $2,190,199,700.

Funding Policy Adopted by TCRS Board of Trustees

By statute, it is the State's policy to fund the pension plan liabilities at the rate determined by an actuarial valuation. The employer contribution rate includes the normal cost, accrued liability cost, and cost of administration.

The TCRS Board of Trustees adopted a formal funding policy in September 2014 for benefits accrued under the TCRS. The current funding policy adopted by the Board of Trustees is available on the Tennessee Treasury website at **www.treasury.tn.gov/tcrs**. The essential elements of the funding policy are:

Annual actuarial valuations will be performed beginning June 30, 2015.

The actuarial valuation method will be entry age normal.

Actuarial value of assets will be smoothed over a ten year period.

Actuarial value of assets cannot be 20% more or less than the market value of assets.

Unfunded liability shall be amortized using level dollar amortization method.

A new tier of unfunded liability shall be established with each actuarial valuation.

The maximum amortization shall be a closed 20-year period for each tier.

An actuarial experience study will be performed at a minimum of every four years.

An actuarial audit will be performed at least once in a ten year period.

Actuarial Determined Contributions

Actuarially Determined Contributions (previously called Annual Required Contributions) and Percentage Contributed (dollars expressed in thousands)

	Closed State & Higher Education Employees Plan		Open State & Higher Education Employees Plan	
Year Ended June 30	Employer Contribution	Employer Contribution as a Percentage of ADC	Employer Contribution	Employer Contribution as a Percentage of ADC
2015	$392,467	100%	$4,214	185%
2014	410,608	100%		
2013	391,352	100%		
2012	382,888	100%		
2011	383,365	100%		
2010	341,585	100%		
2009	350,770	100%		
2008	374,530	100%		
2007	358,327	100%		
2006	299,138	100%		

Actuarially Determined Contributions (previously called Annual Required Contributions) and Percentage Contributed (dollars expressed in thousands)

	Closed Teachers Plan		Open Teachers Plan	
Year Ended June 30	Employer Contribution	Employer Contribution as a Percentage of ADC	Employer Contribution	Employer Contribution as a Percentage of ADC
2015	$338,413	100%	$8,310	162%
2014	348,539	100%		
2013	344,534	100%		
2012	343,594	100%		
2011	339,833	100%		
2010	236,545	100%		
2009	233,215	100%		
2008	218,882	100%		
2007	204,402	100%		
2006	175,741	100%		

The combined annual required contributions are funded from a contribution of State funds, Federal funds, student tuition and fees, and local education agencies. The combined annual required contribution for the state and higher education employees was $396,681,000 for the fiscal year ended June 30, 2015.

Employer Contributions

The 2015 actuarial valuation established the employer contribution rates for the fiscal year ending June 30, 2017. Accordingly, the employer contribution requirement for the fiscal year ending June 30, 2017 will be the rate of 15.02% of salary for general state employees and higher education employees and a rate of 18.53% of salary for public safety employees. The combined aggregate rate is 15.14% of salary. LEAs will make employer contributions at the rate of 9.04% of salary for teachers during the fiscal year ending June 30, 2017.

It is anticipated that there will be upward pressure on the employer contribution rates in future actuarial valuations as the difference between the market value of assets and the actuarial value of assets that are being deferred are recognized pursuant to the ten year schedule previously described in the section titled “Actuarial Methodology”. Moreover, the investment return for the year ended June 30, 2016 is expected to be substantially less than the 7.5% earnings assumption.

Other Retirement Programs

Optional Retirement Program in Higher Education

Employees in higher education who are exempt from the Federal Fair Labor Standards Act may waive membership in the TCRS and elect to participate in the Optional Retirement Program (“ORP”), a defined contribution plan. Employees hired prior to July 1, 2014 do not contribute to the ORP. By statute, employer contributions for employees hired on or before June 30, 2014 are made at the rate of 10% of salary up to the social security wage base and 11% of salary above the wage base. Employees hired on or after July 1, 2014 contribute 5% of salary to the ORP. By statute, employer contributions for employees hired on or after July 1, 2014 are made at the rate of 9% of salary.

Employees are immediately vested in employer and employee contributions. Employees make the determination as to how the employer contributions made on their behalf are invested. Employees have a variety of investment products to choose from among three different vendors.

Employer contributions to the ORP totaled $101.3 million for the year ended June 30, 2015. There were 11,586 ORP participants at June 30, 2015.

Deferred Compensation Plan for State Employees, Higher Education Employees and Teachers

The deferred compensation program is a voluntary defined contribution plan to provide state employees and higher education employees with the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans - a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to traditional and/or Roth plans.

Employee contribution limits are established by federal statute. In the 401(k) plan, employee contributions are matched by employer contributions up to a maximum of $50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise no match will be made.

For the year ended June 30, 2015, 59,319 state and higher education employees made contributions to the 401(k) plan and 4,357 employees made contributions to the 457 plan. Employer contributions totaled $34.0 million while employees contributed $111.4 million. Additionally 8,399 teachers made contributions to the 401(k). Employer contributions for those teachers totaled $10.2 million while employees contributed $3.2 million.

Employees are immediately vested in employee and employer contributions. Employees can choose among a variety of investment products.

Defined Contribution Plan for State Employees and Higher Education Employees hired on or after July 1, 2014 as a component of the New Retirement Plan

One component of the New Retirement Plan is a defined contribution plan for state employees and higher education employees hired on or after July 1, 2014. By statute, employer contributions are made at the rate of 5% of salary. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component. Upon employment employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

Employees are immediately vested in employee and employer contributions. Employees can choose among a variety of investment products.

Defined Contribution Plan for K-12 teachers hired on or after July 1, 2014 as a component of the New Retirement Plan

One component of the New Retirement Plan is a defined contribution plan for K-12 teachers hired on or after July 1, 2014. By statute, employer contributions are made by the LEAs at the rate of 5% of salary. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component. Upon employment, teachers are automatically enrolled to contribute 2% of salary to the defined contribution plan, but teachers may elect to increase or decrease the employee contributions at any time.

Employees are immediately vested in employee and employer contributions. Employees can choose among a variety of investment products.

GASB Statements No. 67 and No. 68

The GASB has issued Statement No. 67 relative to financial reporting for pension plans and Statement No. 68 relative to accounting and financial reporting for pensions for governmental entities. The statements essentially separate pension accounting from pension funding, which have historically been linked together. Statement No. 68 provides a methodology for measuring pension expense to be presented in the employer's financial statements. Moreover, Statement No. 68 provides a methodology for measuring the pension liability to be presented in the employer's financial statement. Regardless, financial statement presentation will not affect the pension funding methodologies described herein. For TCRS, the effective date of Statement No. 67 was the fiscal year ended June 30, 2014 and the effective date of Statement No. 68 for the State was the fiscal year ending June 30, 2015.

DEBT OF CERTAIN AGENCIES AND AUTHORITIES

The following entities are the corporate governmental agencies and instrumentalities of the State authorized to issue various debt instruments. The State is not liable for any debt instrument issued by any of the following entities, and no such debt instrument is a debt or obligation of the State and the full faith and credit of the State is not pledged to the payment thereof.

Tennessee Local Development Authority

In 1978, the General Assembly created the Tennessee Local Development Authority (the "TLDA") pursuant to Sections 4-31-101 et seq., Tennessee Code Annotated. TLDA is a corporate governmental agency and instrumentality of the State. TLDA is authorized to (i) loan funds to local governments for sewage treatment, waterworks and capital projects (the "State Loan Programs"), for firefighting equipment, and for airport facilities; (ii) loan funds to certain small business concerns for pollution control equipment; (iii) make funds available for loans for agricultural enterprises; (iv) make loans to not-for-profit organizations providing certain mental health, mental retardation, and alcohol and drug services; and (v) make loans to local government units to finance construction of capital outlay projects for K-12 educational facilities. In order to fund these loans, TLDA is empowered to issue its bonds and notes. The aggregate amounts outstanding for certain programs are limited as follows: $10,000,000 for firefighting equipment; $200,000,000 for airport facilities; $50,000,000 for pollution control equipment; $50,000,000 for mental health, mental retardation, and alcohol and drug services; $30,000,000 for agricultural enterprises; $15,000,000 for petroleum underground storage tank cleanup costs; and $75,000,000 for capital outlay projects for K-12 educational facilities.

In 2009 the General Assembly delegated to the TLDA the authority to allocate the State's portion of the "national qualified energy conservation bond limitation," as defined in § 54D of the Internal Revenue Code of 1986, codified in 26 U.S.C. § 54D. In 2012 the General Assembly clarified that a "qualified energy conservation project" constitutes a capital project under the State Loan Programs.

Bonds and notes issued by TLDA are secured by: (i) in the case of loans to local governments, monies received by TLDA under loan program agreements with the local governments and by the local governments' allocation of state-shared taxes; (ii) in the case of loans to small business concerns, monies received under agreements with those concerns; (iii) in the case of agricultural loans, monies received under agreements with lenders and a pledge of any money, income or revenue from any source; (iv) in the case of loans to not-for-profit organizations, monies received under State grant agreements and a pledge of the department of mental health and mental retardation's annual budget; and (v) in the case of loans to local government units to finance construction of capital outlay projects for K-12 educational facilities, monies received by TLDA under loan agreements with local education agencies payable from taxes authorized to be levied for the purpose and certain proceeds of the Tennessee lottery for education.

Currently the only program being funded by TLDA is the State Loan Programs. As of June 30, 2016, TLDA had $3,824,000 (unaudited) of bonds outstanding for these Programs.

Tennessee State School Bond Authority

In 1965, the General Assembly created the Tennessee State School Bond Authority (the "Authority"), pursuant to Sections 49-3-1201 et seq., Tennessee Code Annotated. The Authority is a corporate governmental agency and instrumentality of the State. The Authority is authorized to issue its bonds and notes to finance capital outlay programs for higher educational facilities which may be required or convenient for the purposes of The University of Tennessee, including its branches and divisions, and for the purposes of the institutions of higher education under the supervision and administration of the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee. In 1980, the General Assembly further authorized the Authority to issue its bonds or notes to provide funds for the making of student loans by the Tennessee Student Assistance Corporation; however, no such bonds or notes have been issued for this purpose. The Authority also is authorized to issue Qualified Zone Academy Bonds ("QZAB") and Qualified School Construction Bonds ("QSCB") to finance improvement loans to cities and counties for qualifying K-12 schools for capital projects.

Generally, all outstanding higher educational facility debt obligations of the Authority are secured by financing charges payable under contracts and agreements entered into by the Authority and the Board of Trustees of The University of Tennessee and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, as successor to the State Board of Education; legislative appropriations; and certain funds and accounts established by the Higher Educational Facilities General Bond Resolutions of the Authority. The QZABs and QSCBs are part of a Federal government program in which a Federal income tax credit is given to investors in lieu of interest on the bonds. For certain of the QSCBs, a Federal income tax credit is given to bondholders in lieu of the payment of interest on bonds, and in certain other QSCBs an election is made by the Authority to receive direct interest subsidy payments from the United States Treasury, which if not needed to cure defaults under loan agreements with the borrowers, are transferred to them. The QZABs and QSCBs are secured by a general obligation pledge of the borrowers and a pledge of unobligated State-shared taxes of the borrowers.

As of June 30, 2016, the Authority had outstanding $1,486,095,000 (unaudited) aggregate principal amount of higher educational facility bonds, $84,480,161 (unaudited) of higher educational facility revolving credit facility, and $32,590,000 (unaudited) aggregate principal amount of QZAB bonds. As of June 30, 2016, the total par amount of QSCBs outstanding was $389,440,000 (unaudited). A sinking fund has been established for the retirement of the QSCBs, and $127,419,561 (unaudited) was the book value of assets on deposit as of June 30, 2016.

Tennessee Housing Development Agency

In 1973, the General Assembly created the Tennessee Housing Development Agency (the "Agency"), pursuant to Sections 13-23-101 et seq., Tennessee Code Annotated (the "Tennessee Housing Development Agency Act"). The Agency is authorized, among other things, to issue its bonds and notes to make funds available for the financing of residential housing for persons and families of lower and moderate income.

The Agency has established a mortgage finance program and is making funds available for loans for residential housing for persons or families of lower and moderate income. Such loans are secured by eligible mortgages on the properties. The Agency has made, but does not currently make, loans for multi-family residential housing for rental occupancy.

In order to accomplish its objectives, the General Assembly has authorized the Agency to issue its bonds and notes, provided that the aggregate principal amount outstanding on such bonds and notes may not exceed $2,930,000,000, excluding bonds and notes which have been refunded. The Agency's net indebtedness, excluding the bonds and notes which have been refunded, at June 30, 2016, was $1,875,620,000 (unaudited).

Obligations of the Agency are secured by, among other things, mortgage loans made by the Agency from the proceeds of such obligations. Obligations of the Agency issued prior to April 18, 2013, incorporate provisions of the Tennessee Housing Development Agency Act that provide a mechanism for certifying to the Governor and to the Commissioner of Finance and Administration amounts, if any, needed for debt service or operating expenses of the Agency and authorizes the General Assembly to appropriate, to expend and to provide for the payment of such amounts, but imposes no legal obligation upon the General Assembly to do so. These provisions of the Tennessee Housing Development Agency Act do not constitute a legally enforceable obligation of the State to pay any such amounts. Under the Constitution of the State, no monies may be withdrawn from the Treasury but in consequence of appropriations made by law.

State Veterans' Homes Board

In 1988, the General Assembly created the Tennessee State Veterans' Homes Board (the "Veterans' Homes Board") pursuant to Sections 58-7-101 to 58-7-112, inclusive, Tennessee Code Annotated. A political subdivision and instrumentality of the State, the Veterans' Home Board is authorized to issue its debt instruments to finance public homes for the support and care of honorably discharged veterans of the United States armed forces. Such homes will be established only if Federal Veterans' Administration funds are available to provide a share of the construction and operation costs. Prior to the issuance of any debt instruments, the Veterans' Homes Board must receive the approval of the State Funding Board. The Veterans' Homes Board has no outstanding bonds. Loans to the Veterans' Homes Board were funded through the issuance of general obligation bonds authorized by the General Assembly.

LITIGATION

Due to its size and broad range of activities, the State and its officers and employees are involved in a number of legal actions. In view of the financial condition of the State, it is the opinion of the Commissioner of Finance and Administration that the State's financial condition will not be materially affected by such litigation, based on information known at the date of this Official Statement.

Brian A., et al. v. Haslam, et al., (U.S. Dist. Ct., M.D. Tenn.). This is a 42 U.S.C. § 1983 civil rights action against the Governor and the Commissioner of the Department of Children's Services, ("DCS" or the "Department"), in their official capacities in which the plaintiffs, minors in state custody, alleged systemic violations by the State of federal statutory and constitutional rights of all children in foster care and unequal treatment of African-American children in foster care. Represented by an advocacy group, Children's Rights, Inc., of New York City (CRI), as well as local counsel in Nashville, Memphis, and Knoxville, the plaintiffs sought system-wide declaratory and injunctive relief.

On October 26, 2000, the Court denied the Department's motion to dismiss on all but one claim, thereby leaving the bulk of the plaintiffs' case intact. Based on the loss of the motion to dismiss, the Department requested, and the Court agreed, that the parties should be ordered into mediation. After several months of negotiation, the parties entered a Settlement Agreement, which the Court approved in July 2001. In 2010, the parties agreed to an Exit Plan designed to eventually lead to an end of court oversight of the Department. According to the Exit Plan, once DCS maintains compliance with all sections of the Exit Plan for one year, court jurisdiction over all sections of the Settlement Agreement except one will end. The remaining section, which mandates an external accountability center, will stay in effect and be funded by the State for eighteen more months. The Technical Assistance Committee, which monitors the Department's compliance with the Settlement Agreement and Exit Plan, decides what provisions come into maintenance. The Court approved the parties' jointly filed Modified Settlement Agreement and Exit Plan in November 2010.

Since then, the Department has worked to comply with the dictates of the Settlement Agreement. Modified Settlement Agreements were filed in 2011, 2012, 2013, 2014 and 2015. The District Court held a status conference on April 11, 2016. The District Court Judge approved the April 2016 Modified Settlement Agreement and Exit Plan showing all provisions of the Settlement Agreement having a maintenance status. The one-year period during which maintenance must be maintained on all provisions began effective January 1, 2016. At the end of that one-year period, if all provisions have maintained the maintenance status, the State can ask for exit from court jurisdiction. DCS must then maintain an external accountability center that will generate public reports for eighteen months.

People First v. Clover Bottom, (U.S. Dist. Ct., M.D. Tenn.). This is a class action civil rights suit regarding institutional conditions at Clover Bottom, Greene Valley and Nat T. Winston Developmental Centers. This action was consolidated with a case brought pursuant to the Civil Rights of Institutionalized Persons Act filed by the Department of Justice. It alleged that the constitutional rights of residents at these developmental centers were being violated. A settlement agreement was negotiated and was conditionally approved by the District Court on July 3, 1997. Since that time, the State has been working to implement the terms of the Settlement Agreement. Nat T. Winston Developmental Center has since been closed and the institutional conditions at Greene Valley Developmental Center found to be in substantial compliance. The State is in the process of closing Clover Bottom Developmental Center. The question of the quality of services and supports provided to class members living in community-based homes remains at issue. The State entered mediation with the parties in an attempt to reach an exit plan for the dismissal of this lawsuit. The mediation is complete and an Exit Plan was negotiated and approved by all parties. The Court approved the Exit Plan on January 29, 2015, following a fairness hearing held January 21, 2015. The Exit Plan calls for the closure of the Greene Valley Developmental Center and contemplates completion of its terms before the end of 2016; if those terms are completed the case will be dismissed with prejudice.

Tobacco Master Settlement. Though there is no current tobacco payment litigation involving Tennessee, there is the potential for the State to be involved in future arbitrations arising out of disputes concerning an adjustment to annual tobacco payments. Tennessee and 51 other states and territories receive annual payments from participating tobacco manufacturers under the 1998 Tobacco Master Settlement Agreement ("MSA"). The amount of those payments varies each year depending on domestic sales volume and several other adjustments.

A "Non-Participating Manufacturer ("NPM") Adjustment" can reduce a state's payment if certain conditions occur and if the state did not diligently enforce its model escrow statute, which requires tobacco manufacturers that did not settle to pay into an escrow account each year. If an arbitration results in a finding that a state did not diligently enforce the escrow requirements during a calendar year, the state shares the NPM Adjustment with any other states found non-diligent for that year. Thus, the amount of the payment reduction is inversely proportional to the number of states that lose the diligent enforcement determination (i.e., the greater the number of losing states, the lower the payment reduction). A state can lose up to its entire MSA payment for a year. Tennessee's annual MSA payment generally ranges from \$130-\$150 million. Tennessee and 23 other states have resolved the NPM Adjustment disputes for 2003-2014 in a settlement with the participating tobacco manufacturers. However, as of January 1, 2015 Tennessee is once again subject to the potential for an NPM Adjustment to be applied if its diligent enforcement efforts, or lack thereof, are challenged in an arbitration and the State is unsuccessful in proving its diligence. It should be noted that the 2004 arbitration for the states who did not join the more recent settlement, is in the preliminary stage. So any arbitration for 2015 most likely would not begin for a number of years.

State of Mississippi v. State of Tennessee, et al., (U.S. Supreme Court). On June 10, 2014, the State of Mississippi filed a motion in the U.S. Supreme Court for leave to commence an original action against the State of Tennessee, the City of Memphis, and the city's utility, Memphis Light, Gas and Water. This is in connection with Memphis' withdrawal of ground water, which is primarily used to supply drinking water. Mississippi is alleging that these withdrawals have been taking ground water that is in Mississippi, which that state claims to own in a proprietary capacity. Mississippi is seeking an injunction to limit Memphis' ground water withdrawals, and \$615 million in damages for the past withdrawals. Mississippi filed a similar motion in 2009, which the Supreme Court denied. The State believes that it has strong legal and factual arguments that should prevail in a trial of the case. However, there is no guarantee of such a result and the State could be enjoined and/or required to pay damages, if Mississippi were to succeed in its lawsuit. At this time, it is impossible to quantify the economic impact upon the State if such an event were to occur. On June 29, 2015, the Supreme Court issued an order granting the State of Mississippi's motion to file its action. The State filed its answer on September 14, 2015. On November 10, 2015, the Supreme Court appointed Judge Eugene E. Siler, Jr., to be the Special Master; Judge Siler served full-time on the U.S. Court of Appeals for the Sixth Circuit before assuming senior status in 2001. The Special Master held an initial status conference on January 26, 2016, in which he granted the State's and Memphis' request to file a motion for judgment on the pleadings, and stayed all discovery until he rules on that motion. The motion was filed February 25, 2016. An amicus brief supporting the motion was filed by the United States on March 3, 2016. Mississippi filed its response to the motion on April 6, 2016, along with a motion to exclude what it refers to as references in the defendants' motions and the amicus to facts beyond Mississippi's complaint. On April 28, 2016, the State filed a reply brief to the Mississippi response and also an opposition to Mississippi's motion to exclude. In addition, on that same date the United States filed a memorandum in opposition to Mississippi's motion to exclude.

Illinois Central Railroad Co. v. Tenn. Dept. of Revenue, et al. (6th Cir. Ct. App.; U.S. Dist. Ct., M.D. Tenn.; Davidson Co. Chancery Ct.); *BNSF Railway Co., et al. v. Tenn. Dept. of Revenue* (6th Cir. Ct. App.; U.S. Dist. Ct. M.D. Tenn.). These two groups of cases will control the outcome of a number of lawsuits that have been filed by railroads alleging that Tennessee taxes on their purchases of diesel fuel discriminate against them in violation of the federal Railway Revitalization and Regulatory Reform Act (the "4-R Act"). Illinois Central and related cases challenge Tennessee's former taxing regime under which fuel purchases by railroads, but not trucking companies, were subject to the sales tax, even though trucking companies paid a separate, and generally higher, diesel-fuel tax. The federal district court initially ruled for the railroads, but that decision has now been remanded by the Sixth Circuit for further consideration in light of the decision of the United States Supreme Court in a very similar case from Alabama, in which Tennessee authored an amicus brief on behalf of 15 states and in which the Supreme Court ruled that a diesel-fuel tax on trucks could be sufficient justification for their exemption from sales tax on their purchases of diesel fuel. The district court has scheduled proceedings on remand over the next several months. Refunds of approximately \$150 million are at issue in these lawsuits and related potential claims.

Concurrently, the BNSF Railway case challenges the tax presently imposed by the Tennessee Transportation Fuel Equity Act, which places railroads under the same tax obligations as trucking companies. BNSF contends that the new law singles out railroads and violates the 4-R Act. The federal district court denied the railroads' motions for preliminary injunctions but stayed collection pending appeal. The Sixth Circuit has now affirmed the decision that the new Tennessee law does not single out railroads but has remanded to the district court for further consideration of the railroads' claims of discrimination as compared to their ostensible competitors, water carriers, which are exempt from the new act but still pay sales tax on their fuel purchases. Collection of the tax under the current law remains stayed.

In light of the principles announced in the United States Supreme Court and Sixth Circuit decisions, the State believes it will eventually prevail in all of these cases, that the Chancery Court refund actions will be dismissed, and that it will be able to collect the amounts presently being withheld by the railroads and paid into escrow under a private arrangement of the railroad companies.

Comcast Holdings Corp., et al. v. Roberts (Davidson Co. Chancery Ct.). Two franchise and excise tax cases pending under this style seek refunds totaling $62,436,507, plus interest. They involve questions of whether the plaintiffs should be allowed to compute their net worth on a consolidated basis and whether certain affiliate debt was properly included in the franchise tax base. A major issue is whether Comcast's receipts from its Tennessee customers should be included as Tennessee sales in the receipts factor of its apportionment formula. The Commissioner argues that Comcast's earnings-producing activities take place exclusively in Tennessee when it provides services in this State. Comcast argues that it has earnings-producing activities in several states so that one must look to the location of its costs of performance. Comcast places significant weight on its programming costs, which it says are incurred in Pennsylvania.

The first-filed case is scheduled to be litigated in the trial court by the end of 2016.

Hamilton County Bd. Of Ed., Bradley County Bd. Of Ed., McMinn County Bd. Of Ed., Marion County Bd. Of Ed., Grundy County Bd. Of Ed., Coffee County Bd. Of Ed., and Polk County Bd. Of Ed. v. Haslam, Ramsey, Harwell, McQueen, Rolston, Edwards, Chancey, Roberts, Pearre, Tucker, Hartgrove, Johnson, and Troutt, (Davidson Co. Chancery Ct.). The State was served with this suit on March 24, 2015. Seven local school boards brought suit against the Governor, the Speakers of both Houses, the Commissioner of Education, and the members of the State Board of Education, all in their official capacities only, alleging that the State has (1) violated the holdings of the Tennessee Supreme Court in three previous education funding cases, as well as the Tennessee Constitution and (2) violated State education funding statutes. The essential claim of the Complaint is that the State does not adequately fund public education in Tennessee. The Complaint seeks a declaratory judgment holding that (a) the current system of funding public education violates Article XI, Section 12, of the Tennessee Constitution, and fails to provide a free public education, (b) the State educational funding system fails to provide Tennessee students with substantially equal educational opportunities, (c) the General Assembly must appropriate sufficient funds to fully implement the recommendations of the State's Basic Education Program ("BEP") Review Committee dated November 1, 2014, and (d) the General Assembly must include in the BEP funding formula the cost components associated with the rigorous academic standards imposed by the General Assembly.

The Plaintiffs filed a Motion for the Court to certify the case as a class action and include every county school system in the State in the class. That motion was denied. The Defendants filed a Motion to Dismiss for Failure to State a Claim upon which Relief can be Granted. That motion was also denied.

The Defendants believe that they have strong legal and factual arguments and that they should prevail ultimately on the merits. However, there is no guarantee of such a result. The Plaintiffs' Amended Complaint claims "funding shortfalls" ranging from one hundred and thirty-five million dollars ($135,000,000) to seven hundred million dollars ($700,000,000). Therefore, if the Plaintiffs were to succeed in their lawsuit, the State could possibly have to increase its funding for education by as much as seven hundred million dollars ($700,000,000).

Shelby County Bd. Of Ed., v. Haslam, Ramsey, Harwell, McQueen, Rolston, Edwards, Chancey, Roberts, Pearre, Tucker, Hartgrove, Johnson, and Troutt, and Heyburn, (Davidson Co. Chancery Ct.). The State was served with this lawsuit on August 31, 2015. The Shelby County Board of Education brought this suit against the Governor, the Speakers of both Houses, the Commissioner of Education, and the members of the State Board of Education, as well as the Board's Executive Director, all in their official capacities only, alleging that the State has (1) violated the holdings of the Tennessee Supreme Court in three previous education funding cases, as well as the Tennessee Constitution, and (2) violated State education funding statutes. The essential claim of the Complaint is that the State does not adequately fund public education in Tennessee. The Complaint in this case goes beyond the relief sought in the Hamilton County case above, which seeks full funding of the existing BEP funding formula. In this case, Shelby County seeks a declaratory judgment holding that (a) some portions of the BEP program are inadequate and therefore in violation of Article XI, Section 12, of the Tennessee Constitution; thus, the State is failing to provide a free public education, (b) the State educational funding system fails to provide Tennessee students with substantially equal educational opportunities and (c) the General Assembly must appropriate sufficient funds to implement a revised version of the current school funding formula that includes, for example, pre-school education programs.

The Defendants believe that they have strong legal and factual arguments and that they should prevail ultimately on the merits. However, there is no guarantee of such a result. Since the Plaintiff's Complaint includes in its prayer for relief a major revamp and expansion of the existing BEP funding scheme, including a prayer for relief that seeks funding for an entirely new program – pre-school programs – the total relief sought in this case is likely significantly higher than the Hamilton County case, above. However, it is impossible at this time to put an accurate dollar figure on any increase in funding for education that the State would have to make if the Plaintiffs were to prevail in this lawsuit. In addition, it should be noted this case and the Hamilton County case, above, overlap to a significant extent, i.e., they both seek funding changes to the existing system that would affect every other State school system. Consequently, the relief sought in the two cases should not simply be added together to determine the State's potential liability in these matters.

TAX MATTERS

Series A Bonds and Series B Bonds

Opinions of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series A Bonds and Series B Bonds (the "Tax-Exempt Bonds") is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State in connection with the Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the State with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the State, under existing laws of the State, the principal of and interest on the Tax-Exempt Bonds are exempt from taxation by the State or by any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes, and except to the extent included within the measure of franchise and excise taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Tax-Exempt Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds, or under state and local tax law.

For the proposed form of opinion of Bond Counsel relating to Federal and State tax matters, see Appendix C.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds in order that interest on the Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The State has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Tax-Exempt Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Tax-Exempt Bonds.

Prospective owners of the Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Tax-Exempt Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Tax-Exempt Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Tax-Exempt Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Tax-Exempt Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of Tax-Exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Tax-Exempt Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Tax-Exempt Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a Tax-Exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on Tax-Exempt obligations, including the Tax-Exempt Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Tax-Exempt Bonds through a brokerage account has executed a Form W 9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Tax-Exempt Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Tax-Exempt Bonds under Federal or state law or otherwise prevent beneficial owners of the Tax-Exempt Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Tax-Exempt Bonds. For example, budgets proposed by the Obama Administration from time to time have recommended a 28% limitation on certain itemized deductions and other tax benefits, including Tax-Exempt interest. The net effect of such a proposal, if enacted into law, would be that an owner of a Tax-Exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such Tax-Exempt bond, regardless of issue date.

Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding the foregoing matters.

Series C Bonds

Opinion of Bond Counsel

In the opinion of Bond Counsel to the State, (i) interest on the Series C Bonds (the "Taxable Bonds") is included in gross income for Federal income tax purposes pursuant to the Code and (ii) under existing laws of the State, the principal of and interest on the Taxable Bonds are exempt from taxation by the State or by any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes, and except to the extent included within the measure of franchise and excise taxes.

General

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Taxable Bonds by original purchasers of the

Taxable Bonds who are "U.S. Holders" or "Holders", as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Taxable Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a Holder in light of its particular circumstances or to Holders subject to special rules, such as insurance companies, financial institutions, Tax-Exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Bonds as a position in a "hedge" or "straddle", Holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, Holders who acquire Taxable Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Taxable Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount ("OID") is greater than a statutorily defined de minimis amount, a Holder of a Taxable Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such Holder holds such Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the Holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price". For purposes of the foregoing: "issue price" means the first price at which a substantial amount of the Taxable Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); "stated redemption price at maturity" means the sum of all payments, other than "qualified stated interest", provided by such Taxable Bond; "qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and "de minimis amount" is an amount equal to 0.25 percent of the Taxable Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity. A Holder may irrevocably elect to include in gross income all interest that accrues on a Taxable Bond using the constant-yield method, subject to certain modifications.

Bond Premium

In general, if a Taxable Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Taxable Bond other than "qualified stated interest" (a "Taxable Premium Bond"), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the Holder will make a corresponding adjustment to the Holder's basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the Holder (other than Tax-Exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the Holder's original acquisition cost.

Disposition

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such Holder's adjusted tax basis in the Taxable Bond.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to non-corporate Holders of the Taxable Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a Taxable Bond and the proceeds of the sale of a Taxable Bond before maturity within the United States. Backup withholding may apply to Holders of Taxable Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders

The term "U.S. Holder" or "Holder" means a beneficial owner of a Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Taxable Bonds under state law and could affect the market price or marketability of the Taxable Bonds.

Prospective purchasers of the Taxable Bonds should consult their own tax advisors regarding the foregoing matters.

UNDERWRITING

Citigroup Global Markets Inc., on behalf of itself and other underwriters shown on the front cover of this Official Statement (collectively, the "Underwriters"), has agreed, subject to certain conditions, to purchase the Bonds pursuant to a Bond Purchase Agreement (the "Purchase Agreement"). The Underwriters have agreed to purchase (i) the Series A Bonds from the State at an aggregate purchase price of $218,252,389.22 (consisting of the par amount of the Series A Bonds plus an original issue premium of $42,513,156.35, less an Underwriters' discount of $125,767.13) (ii) the Series B Bonds from the State at an aggregate purchase price of $160,554,673.22 (consisting of the par amount of the Series B Bonds plus an original issue premium of $35,745,897.10, less an Underwriters' discount of $91,223.88) and (iii) the Series C Bonds from the State at an aggregate purchase price of $65,337,789.30 (consisting of the par amount of the Series C Bonds less an Underwriters' discount of $47,210.70). The obligation of the Underwriters to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement between the Underwriters and the State.

The Bonds may be offered and sold by the Underwriters to certain dealers, banks and others at prices different than the offering prices indicated on the inside front cover page hereof, and such offering prices may be changed from time to time.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the

Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the State for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State.

FINANCIAL ADVISOR

PFM Financial Advisors LLC ("PFM") is employed by the State to perform professional services in the capacity of financial advisor. In its role as financial advisor to the State Funding Board, PFM has provided advice on the plan of financing and structure of the Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and reviewed and will give an opinion to the State Funding Board on the fairness of the pricing of the Bonds by the underwriting syndicate. PFM has not independently verified the factual information contained in this Official Statement, but relied on the information supplied by the State and other sources and the State's certification as to the Official Statement.

VERIFICATION AGENT

The arithmetical accuracy of certain computations included in the schedules provided by PFM on behalf of the State relating to (a) computation of forecasted receipts of principal and interest on the obligations deposited under the Refunding Trust Agreement and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yield on the Series A Bonds and Series B Bonds and the obligations deposited under the Refunding Trust Agreement was examined by Robert Thomas CPA, LLC. Such computations were based solely upon assumptions and information supplied by PFM on behalf of the State. Robert Thomas CPA, LLC. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings ("Standard and Poor's") and Fitch Ratings ("Fitch") have given the Bonds ratings of Aaa, AAA, and AAA, respectively. Such ratings reflect only the respective views of such organizations and an explanation of the significance of a rating may be obtained only from the rating agency furnishing the same. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time and there is no assurance that any rating will be maintained for a given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of ratings may have an adverse effect on the market price of the Bonds.

LEGAL OPINIONS

The validity of the Bonds will be approved by the legal opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the State. For the proposed form of Bond Counsel opinion relating to the Bonds, see Appendix C. Certain legal matters will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to the State Funding Board. No representation is made to the holders of the Bonds that any such counsel have verified the accuracy, completeness or fairness of the statements in this Official Statement, and such counsel assume no responsibility to the holders of the Bonds except for the matters that will be set forth in their respective opinions.

CONTINUING DISCLOSURE

The State has authorized the Continuing Disclosure Undertaking (the "Undertaking") with respect to the Bonds to assist in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Undertaking will be for the benefit of the holders of the Bonds, and beneficial owners will be third-party beneficiaries thereof. The form of the Undertaking is included herein as Appendix E.

In connection with the issuance of the Bonds, the State reviewed the financial information, operating data and event notices filed by the State within the preceding five years with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system pursuant to the State's Rule 15c2-12 continuing disclosure undertakings and identified, among other things, the following. Rating downgrades of several maturities of one series of the State's general obligation bonds issued in 2003 (all maturities of which series had either been refunded or had matured by August 1, 2011) based on the bonds' insurer were not the subject of material event notices due, in part, to the lack of any direct notification to the State of the specific rating impact on such bonds. Watkins Institute is not deemed to be a component unit of the State and its financial information, including indebtedness, is not reported in the State's CAFR; accordingly no information on its indebtedness (currently totalling approximately $1.2 million) was reported to EMMA and will not be reported in the future. Information regarding TennCare budgeted expenditures (the "TennCare Information") presented in tabular format in relevant Official Statements was not presented in such format in the State's CAFRs, but current-year budgeted and actual TennCare expenditures were presented in each of the State's CAFRs (other than for the 2012 fiscal year, in which only actual TennCare expenditures were presented). Certain TCRS information (the "TCRS Information") presented in tabular format in relevant Official Statements (Unfunded Liability if Actuarial Value of Assets were Valued at Market; Historical Funding Progress Based on Fiduciary Net Position/Market Value of Assets; Historical Fiduciary Net Position/Market Value of Assets; Comparison of Market Value of Assets to Actuarial Value of Assets; and Cash Flows) was reported in different form in the State's CAFR and the comprehensive annual financial report of the TCRS filed by the State each year; in addition, both the TennCare Information and the TCRS Information were also included in the same tabular format in Official Statements posted on EMMA in the last five years, except for actuarial valuation information that was not included in the 2015 Official Statement because of changes in GASB accounting rules. The foregoing results of the State's continuing disclosure review are provided without regard to the materiality of the identified information.

The State periodically provides investor updates of certain information to persons who have notified the Office of State and Local Finance of a desire to receive such information. The State is not required under any undertaking to provide such information and provides no assurance that it will continue to do so.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided that are not purely historic, are forward-looking statements, including statements regarding the expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available on the date hereof, and the State assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business and policy decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized.

All financial and other information presented in this Official Statement has been provided by the State from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other revenues, is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

References to and summaries of provisions of the State Constitution and laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

STATE OF TENNESSEE

By*: /s/ Justin P. Wilson*

Comptroller of the Treasury;

Secretary of the Funding Board of
the State of Tennessee

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APPENDIX A

FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report ("CAFR") of the State, including the audited Basic Financial Statements, for the fiscal year ended June 30, 2015 has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system (see "Continuing Disclosure" and Appendix E) and is obtainable from them in accordance with their procedures. A printed version is also available upon request to the State Funding Board, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-1402, telephone (615) 401-7872, fax (615) 741-5986. The 2015 CAFR and certain prior year CAFRs are posted on the State's website at **http://www.tennessee.gov/finance/article/fa-accfin-cafr.**

The following reports, each of which are included in the 2015 CAFR and have been posted on the State's website, are incorporated herein by reference:

Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

- Government-wide Financial Statements:
  - Statement of Net Position
  - Statement of Activities
- Fund Financial Statements:
  - Balance Sheet-Governmental Funds
  - Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
  - Statement of Net Position-Proprietary Funds
  - Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds
  - Statement of Cash Flows-Propriety Funds
  - Statement of Fiduciary Net Position-Fiduciary Funds
  - Statement of Changes in Fiduciary Net Position-Fiduciary Funds
- Notes to the Financial Statements

Required Supplementary Information:

- Infrastructure Assets Reported Using the Modified Approach
- Other Post-Employment Benefits Schedule of Funding Progress – Primary Government
- Other Post-Employment Benefits Schedule of Funding Progress – Component Units
- Pension Schedule of Funding Progress – Primary Government
- Pension Schedule of Funding Progress – Component Units
- Ten-Year Claims Development Table – Access TN Insurance Fund
- Schedule of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual Major Governmental Funds
- Note to RSI

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STATISTICAL SECTION

The Comprehensive Annual Financial Report ("CAFR") of the State, including selected statistical data (unaudited), for the fiscal year ended June 30, 2015 has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system (see "Continuing Disclosure" and Appendix E) and is obtainable from them in accordance with their procedures. A printed version is also available upon request to the State Funding Board, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-1402, telephone (615) 401-7872, fax (615) 741-5986. The 2015 CAFR and certain prior year CAFRs are posted on the State's website at **http://www.tennessee.gov/finance/article/fa-accfin-cafr.**

The following statistical data, all of which is included in the 2015 CAFR and has been posted on the State's website, is incorporated herein by reference:

Financial Trends

Revenue Capacity

Debt Capacity

Demographic and Economic Information

Operating Information

Component Units

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FORM OF PROPOSED OPINION OF BOND COUNSEL

August 25, 2016

The Honorable Governor and Members of
the Funding Board of the State of Tennessee
Nashville, Tennessee 37243

STATE OF TENNESSEE
GENERAL OBLIGATION BONDS
2016 SERIES A, $175,865,000
2016 REFUNDING SERIES B, $124,900,000
2016 REFUNDING SERIES C (FEDERALLY TAXABLE), $65,385,000

Dear Sirs:

At your request we have examined into the validity of $175,865,000 General Obligation Bonds, 2016 Series A (the "Series A Bonds"), $124,900,000 General Obligation Bonds, 2016 Refunding Series B (the "Series B Bonds") and $65,385,000 General Obligation Bonds, 2016 Refunding Series C (Federally Taxable) (the "Series C Bonds" and, collectively with the Series A Bonds and Series B Bonds, the "Bonds") of the State of Tennessee (the "State"). The Bonds are dated as of the date hereof, and mature, are subject to redemption prior to maturity, are payable and bear interest, all as provided in the resolution of the Funding Board hereinafter mentioned.

The Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and laws of the State, including specifically Title 9, Chapter 9, Tennessee Code Annotated, various Public Acts of the General Assembly of the State of Tennessee, and a resolution adopted by the Funding Board of the State of Tennessee on June 9, 2016, in the case of the Series A Bonds, for the public purposes of various State departments and institutions and to provide for the retirement at maturity of certain of the State's general obligation bond anticipation notes constituting commercial paper heretofore issued for such purposes, and in the case of the Series B Bonds and Series C Bonds, to refund certain outstanding general obligation bonds of the State.

We have examined the Constitution and statutes of the State; certified copies of proceedings of the Funding Board of the State of Tennessee and Public Acts of the General Assembly of the State of Tennessee authorizing the issuance of the Bonds, and an executed Bond of each series, and have made such other examination of law and fact, as we have considered appropriate for purposes of this opinion letter.

Based on the foregoing, we are of the opinion that:

(1) The Bonds have been authorized and issued in accordance with the Constitution and laws of the State, and constitute valid direct general obligations of the State for the payment of the principal of and premium, if any, and interest on which there is also pledged the full faith and credit of the State. The State has not generally waived immunity from suit or extended its consent to be sued, and monetary actions against the State for breach of contractual obligations may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs.

(2) Under existing statutes and court decisions, (i) interest on the Series A Bonds and Series B Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph (2), we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and others in connection with the Tax-Exempt Bonds, and have assumed compliance by the State with certain ongoing covenants to comply with applicable requirements of the Code to assure

the exclusion of the interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code. Under the Code, noncompliance with such requirements may cause the interest on the Tax-Exempt Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered.

(3) Interest on the Series C Bonds is included in gross income for Federal income tax purposes pursuant to Section 103 of the Code.

(4) Under the existing laws of the State, the principal of and interest on the Bonds are exempt from taxation by the State or by any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes and except to the extent included within the measure of franchise and excise taxes.

The opinions expressed in paragraph (1) above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs (2), (3) and (4) above, (ii) the effect of any action taken or not taken, in reliance upon an opinion of other counsel, on the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds, or under state or local tax law, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement dated July 27, 2016 (or any update or amendment thereof or supplement thereto) relating to the Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material or matters of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason

Very truly yours,

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds bearing interest at each interest rate, each in the aggregate principal amount of such maturity bearing interest at such rate, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holding on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or any Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the State or any Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or any Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct or Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be prepared and delivered to DTC.

THE FOREGOING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM DTC, A SOURCE THAT STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE STATE, THE UNDERWRITERS, NOR THE PAYING AGENT AND REGISTRAR CAN MAKE ANY ASSURANCE THAT DTC OR THE DTC PARTICIPANTS WILL ACT IN A MANNER DESCRIBED HEREIN, NOR WILL THEY HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC, ANY DIRECT DTC PARTICIPANT, OR ANY INDIRECT DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC OR ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATIONS TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND DOCUMENTS TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS.

So long as Cede & Co. is the registered owners of the Bonds, as nominee for DTC, references in the Official Statement to the Bondholders or registered owners of the Bonds (other than under the caption "Tax Matters" in the Official Statement) shall mean Cede & Co. or any other DTC nominee, as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

APPENDIX E

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is dated and made as of August 25, 2016 by the State of Tennessee (the "State") in connection with the issuance of the State's $175,865,000 aggregate principal amount of General Obligation Bonds, 2016 Series A, $124,900,000 aggregate principal amount of General Obligation Bonds, 2016 Refunding Series B, and $65,385,000 aggregate principal amount of General Obligation Bonds, 2016 Refunding Series C (Federally Taxable) (collectively, the "Bonds"). As authorized by Section 10 of the resolution (the "Bond Resolution") of the Funding Board of the State of Tennessee (the "Funding Board") adopted on June 9, 2016, authorizing the Bonds, the State agrees as follows:

ARTICLE I

Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means (i) updated versions of the following financial information and operating data contained in, or incorporated by reference pursuant to an Appendix to, the Official Statement with respect to the State, for each fiscal year of the State:

- Special Tax Collections
- Total Sales and Use Tax Collections
- Allocation of Sales and Use Tax to Debt Service
- Outstanding General Obligation Bonded Indebtedness
- Long-Term General Obligation Bonded Debt Service by Fiscal Year and Maturity
- Maximum and Actual Principal Amounts of Commercial Paper Outstanding
- Other Post-Employment Benefits
  - Unfunded Actuarial Liability
  - Annual Required Contribution
- Rainy Day Fund Reserve Balance
- Tennessee Consolidated Retirement System
  - Statistical data
  - Tables
- Debt of Certain Agencies and Authorities
  - Tennessee Local Development Authority
  - Tennessee State School Bond Authority
  - Tennessee Housing Development Agency
  - State Veterans' Homes Board
- The statistical data incorporated by reference in Appendix B to the Official Statement, to the extent and in the form presented in the State's most recent Comprehensive Annual Financial Report

and (ii) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements of the State, audited by the Comptroller of the Treasury, Division of State Audit, as now required by State law (or such other auditor as hereafter may be required or permitted by State law). Audited Financial Statements shall be prepared in accordance with GAAP.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to the State.

(4) “EMMA” means the MSRB’s Electronic Municipal Market Access system or its successor.

(5) “GAAP” means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b) of the Securities Exchange Act of 1934, as amended, or any successor to the MSRB or the functions of the MSRB contemplated by this Undertaking.

(7) “Notice Event” means any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of Bondholders, if material;

(viii) bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

(xiii) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(8) “Notice Event Notice” means notice of a Notice Event.

(9) “Official Statement” means the Official Statement dated July 27, 2016, of the State relating to the Bonds.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the effective date hereof, including any official interpretations thereof.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE II

The Undertaking

Section 2.1. Purpose. This Undertaking is being executed, delivered and made solely to assist the underwriters of the Bonds in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The State shall provide Annual Financial Information with respect to each fiscal year of the State, commencing with the fiscal year ending June 30, 2016, by no later than 7 months after the end of the respective fiscal year, to the MSRB.

(b) The State shall provide, in a timely manner, notice of any failure of the State to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof because not available, the State shall provide Audited Financial Statements, when and if available, to the MSRB.

Section 2.4. Notice Events. (a) If a Notice Event occurs, the State shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, a Notice Event Notice to the MSRB.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The State acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the State and that, under some circumstances, additional disclosures or other action in addition to those required by this Undertaking may be required to enable the State to fully discharge all of its duties and obligations under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Notice Event Notice, in addition to that which is required by this Undertaking. If the State chooses to do so, the State shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

ARTICLE III

Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the State provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section shall not apply to Notice Event Notices pursuant to Section 2.4 hereof.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Filing with Certain Dissemination Agents or Conduits. The State may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the State under this Undertaking, and revoke or modify any such designation.

Section 3.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

Section 3.5. Fiscal Year. (a) The State's current fiscal year is July 1 – June 30. The State shall promptly notify the MSRB of each change in its fiscal year.

(b) The State shall provide Annual Financial Information at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE IV

Effective Date, Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination. (a) This Undertaking shall be effective upon the issuance of the Bonds.

(b) The State's obligations under this Undertaking shall terminate with respect to each Bond upon the legal defeasance, prior redemption or payment in full of such Bond.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that the State (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Undertaking, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 4.2. Amendment. (a) This Undertaking may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the State or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the State shall have received either an opinion of Counsel or a determination by a person, in each case unaffiliated with the State, to the effect that the amendment does not materially impair the interests of the holders of the outstanding Bonds, and (5) the State shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Undertaking may be amended without the consent of the holders of the Bonds if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Undertaking, (2) the State shall have received an opinion of Counsel to the effect that performance by the State under this Undertaking as so amended will not result in a violation of the Rule as so amended or officially interpreted and (3) the State shall have delivered copies of such opinion and amendment to the MSRB.

(c) To the extent any amendment to this Undertaking results in a change in the categories or types of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the State in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. Contract; Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking and shall be deemed to be holders of Bonds for purposes of Section 4.3(b) hereof. The provisions of this Undertaking shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the State to comply with the provisions of this Undertaking shall be enforceable by any holder of outstanding Bonds; however, the holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the State's obligations under this Undertaking.

(c) Any failure by the State to perform in accordance with this Undertaking shall not constitute a default or an event of default under the Bond Resolution or State law and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Bond Resolution and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 4.4. Effective Date. This Undertaking shall be effective upon the issuance and delivery by the State of the Bonds.

STATE OF TENNESSEE

By:______________________________

Sandra Thompson

Assistant Secretary, Funding Board of the State of Tennessee, *and*

Director, Office of State and Local Finance, State of Tennessee

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