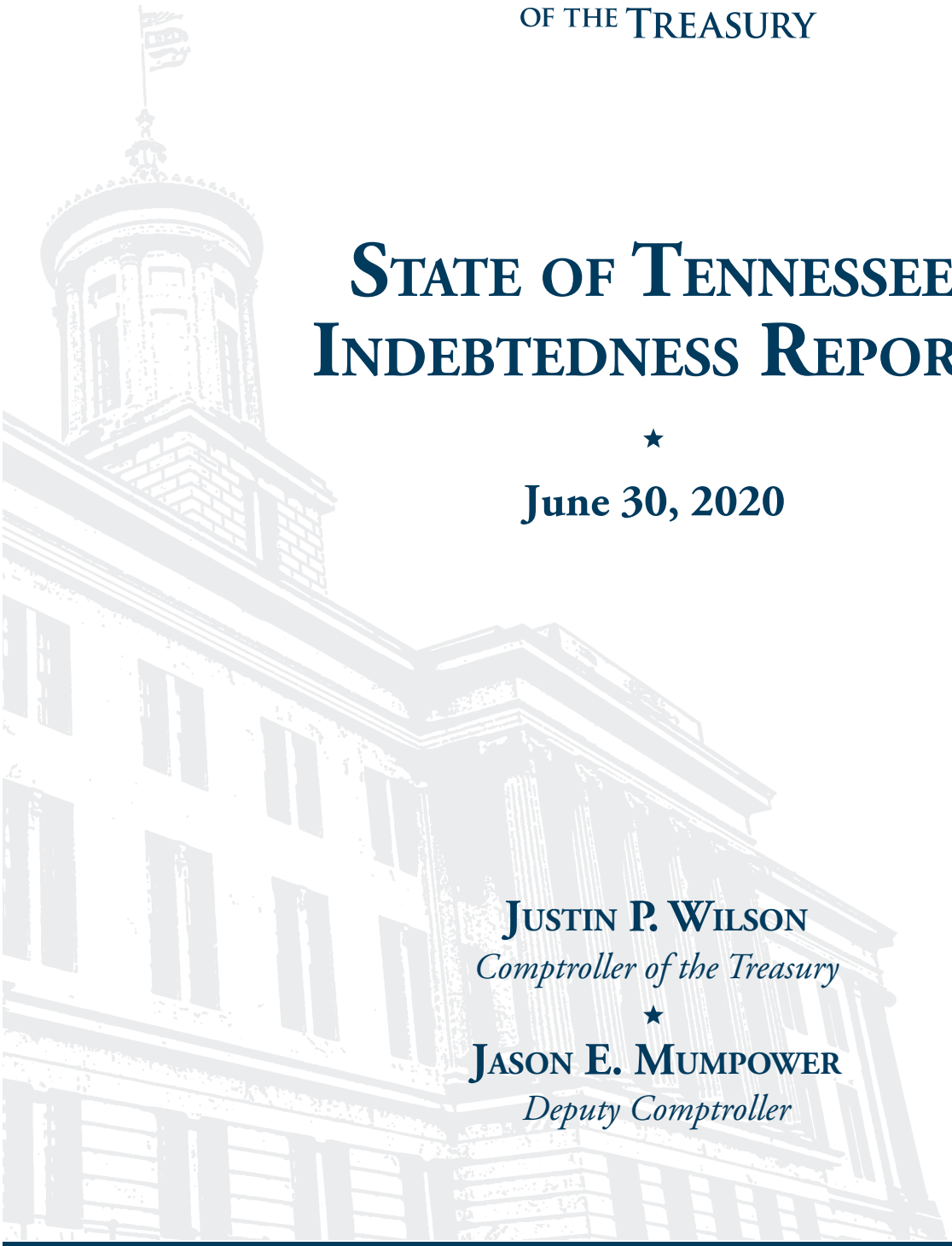

Tennessee Comptroller of the Treasury

State of Tennessee Indebtedness Report

★

June 30, 2020

Justin P. Wilson
Comptroller of the Treasury

★

Jason E. Mumpower
Deputy Comptroller

TENNESSEE
COMPTROLLER
OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

August 31, 2020

The Honorable Bill Lee, Governor
The Honorable Randy McNally, Lieutenant Governor
The Honorable Cameron Sexton, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide updated information on the four state debt issuers: The State Funding Board for Tennessee's General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report compares outstanding indebtedness at June 30, 2020, and at December 31, 2019. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund, the Drinking Water State Revolving Fund, the Energy Efficient Schools Initiative and the State Infrastructure Fund.

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority, and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

Justin P. Wilson
Comptroller of the Treasury

C: Senate Finance, Ways and Means Committee
The Honorable Bo Watson, Chair
The Honorable John Stevens, 1st Vice-Chair
The Honorable Joey Hensley, 2nd Vice-Chair

House Finance, Ways and Means Committee
The Honorable Susan Lynn, Chair
The Honorable Patsy Hazlewood, Vice-Chair
The Honorable Gary Hicks, Finance, Ways and Means Subcommittee Chair
The Honorable Matthew Hill, Finance, Ways and Means Appropriations Subcommittee Chair

Fiscal Review Committee
The Honorable Ron Travis, Chair
The Honorable Todd Gardenhire, Vice-Chair
Krista Lee Carsner, Director

Office of Legislative Budget Analysis
Catherine Haire, Senate Budget Analysis Director
Peter Muller, House Budget Analysis Director

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Tennessee Debt Issuers

State Funding Board (SFB)

The SFB has responsibility for issuing all State general obligation bonds and notes authorized by the General Assembly. The State utilizes general obligation commercial paper to short-term finance its capital projects during the construction period. As projects are completed, the commercial paper is repaid with the proceeds from the issuance of long-term debt (general obligation bonds). The SFB debt management policy is located on the Comptroller's website.

Tennessee State School Bond Authority (TSSBA)

The TSSBA is responsible for the administration of the following programs:

Higher Educational Facilities Bond Program

The TSSBA is delegated the responsibility for issuing bonds and notes to provide funds:

- to make loans to state institutions of higher learning to construct revenue-generating facilities, and
- to make funds available to the Tennessee Student Assistance Corporation for student loans under the Guaranteed Student Loan Program.

The TSSBA utilizes a revolving credit facility to short-term finance projects during the construction period. As projects are completed, the facility is repaid with the proceeds from the issuance of long-term debt (Higher Educational Facilities Program bonds).

Qualified Zone Academy Bond Program (QZAB)

The QZAB program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997. The proceeds of the QZABs were used to make loans to local governments for certain educational projects. The QZABs are secured with the general obligation pledge of the local government borrowers. The program is additionally secured with an intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

Qualified School Construction Bond Program (QSCB)

The QSCB program is a federal tax credit (2009) /federal direct subsidy (2010) program established through the American Recovery and Reinvestment Act of 2009 (ARRA). The proceeds of the 2009 and 2010 QSCBs were used to make loans to local governments for certain qualified school construction projects. The TSSBA issued all of the QSCB bonds allocated under ARRA, so no additional debt will be issued for this program. The QSCBs are secured with the general obligation pledge of the local government borrowers. The program is additionally secured with an intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

The TSSBA debt management policy is located on the Comptroller's website.

Tennessee Local Development Authority (TLDA)

The TLDA has the responsibility for issuing its debt obligations to provide funds for the following purposes:

- to make loans to local governments for the financing of construction and improvements for water and sewer systems;
- to make loans to local governments for the financing of certain capital projects;
- to make loans to certain small business concerns for pollution control facilities;
- to make loans to farmers for certain capital improvements;
- to make loans to counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties;
- to make loans to airport authorities and municipal airports; and
- to make loans under the Community Provider Program to mental health institutes and substance abuse facilities.

The TLDA debt management policy is located on the Comptroller's website.

Tennessee Housing Development Agency (THDA)

THDA provides mortgage loan products at competitive interest rates to lower and moderate-income persons and families in order to create safe, sound, and affordable housing opportunities across the State. The Bond Finance Committee of the THDA Board of Directors is responsible for overseeing THDA debt issuance. THDA has issued debt pursuant to the following four (4) general resolutions: the Housing Bond Resolution (Mortgage Finance Program) (the "1974 General Resolution"), the Homeownership Program Resolution (the "1985 General Resolution"), the Housing Finance Program Resolution (the "2009 General Resolution"), and the General Residential Finance Program Bond Resolution (the "2013 General Resolution"). No debt is currently outstanding under the 1974 General Resolution. THDA is currently issuing debt only under the 2013 General Resolution. The 2013 General Resolution does not carry the moral obligation pledge of the State. The THDA debt management policy is located on the Comptroller's website.

State of Tennessee Indebtedness Report

(Unaudited)

	As of December 31, 2019		As of June 30, 2020		Variance Increase (Decrease)	
	Number of Loans / Projects	Debt Outstanding	Number of Loans / Projects	Debt Outstanding	Number of Loans / Projects	Debt Outstanding
Long-term General Obligation Debt						
General Obligation Bonds Outstanding	1,885	$ 1,728,535,000	1,780	$ 1,710,955,000	(105)	$ (17,580,000)
General Obligation Commercial Paper						
Tax-Exempt	54	$ 55,133,000	50	$ 80,133,000	(4)	$ 25,000,000
Taxable	4	68,863,000	4	40,863,000	-	(28,000,000)
Total Commercial Paper Outstanding	58	$ 123,996,000	54	$ 120,996,000	(4)	$ (3,000,000)
Tennessee State School Bond Authority						
Higher Education Facilities Program						
Bonds Outstanding	204	$ 1,639,770,000	195	$ 1,631,435,000	(9)	$ (8,335,000)
Revolving Credit Facility (RCF) Outstanding:						
Tax-Exempt	8	$ 32,662,265	8	$ 51,367,265	-	$ 18,705,000
Taxable	8	8,415,532	8	23,113,425	-	14,697,893
Total Revolving Credit Facility	16	$ 41,077,797	16	$ 74,480,690	-	$ 33,402,893
Qualified Zone Academy Bond Program						
Bonds Outstanding	11	$ 30,145,000	11	$ 30,145,000	-	$ -
Qualified School Construction Bonds						
Series 2009	13	$ 177,000,000	13	$ 177,000,000	-	$ -
Series 2010	15	$ 212,440,000	15	$ 212,440,000	-	$ -
Tennessee Local Development Authority						
Bonds Issued and Outstanding	7	$ 1,970,000	4	$ 1,535,000	(3)	$ (435,000)
Tennessee Housing Development Agency						
Mortgage Loans / Principal Outstanding	27,165	$ 2,776,465,000	27,612	$ 2,816,040,000	447	$ 39,575,000
Total State Indebtedness:		**$ 6,731,398,797**		**$ 6,775,026,690**		**$ 43,627,893**

Change in Debt Outstanding from Prior Period

General Obligation Debt

- During the period from December 31, 2019, to June 30, 2020, bond principal outstanding decreased in the amount of $17,580,000 from bonds maturing.
- The decrease in bond principal of $17,580,000 included the 2012C bonds that reached their final maturity in the amount of $6,900,000, which resulted in the decrease of 105 financed projects.
- During the period from December 31, 2019 to June 30, 2020, commercial paper outstanding decreased by $3,000,000, comprised of one new issuance totaling $25,000,000 and payoffs in the amount of $28,000,000.

Tennessee State School Bond Authority (TSSBA)

Higher Education Facilities Program

- During the period from December 31, 2019, to June 30, 2020, bond principal outstanding decreased in the amount of $8,335,000 from bonds maturing.
- During the period from December 31, 2019, to June 30, 2020, the revolving credit facility loans outstanding increased by $33,402,893, comprised of draws on the facility in the amount of $35,000,000 and payoffs in the amount of $1,597,107.

Qualified Zone Academy Bond Program (QZAB)

- As of June 30, 2020, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is $29,508,076.

Qualified School Construction Bond Program (QSCB)

- As of June 30, 2020, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled $260,168,122.

Tennessee Local Development Authority (TLDA)

- During the period from December 31, 2019, to June 30, 2020, bond principal matured in the amount of $435,000.

Tennessee Housing Development Agency (THDA)

- During the period from December 31, 2019, to June 30, 2020, bond principal outstanding increased by $39,575,000. This increase was comprised of:
    - New bonds issued under the 2013 General Resolution in the original principal amount of $308,500,000, and
    - Bonds matured, or were redeemed in accordance with their terms, in the principal amount of $268,925,000.

Authorized/Unissued Debt

(Unaudited)

	As of December 31, 2019		As of June 30, 2020		Variance Increase (Decrease)
General Obligation	$ 1,095,575,075	1)	$ 1,411,702,349		$ 316,127,274
Tennessee State School Bond Authority (TSSBA)	324,503,379	2)	306,401,010	2)	(18,102,369)
Tennessee Local Development Authority (TLDA)	305,000,000	3)	305,000,000	3)	-
TLDA Capital Projects	75,000,000		75,000,000		-
Tenessee Housing Development Agency (THDA)	153,535,000	3)	120,560,000	3)	(32,975,000)
Total Authorized/Unissued Debt	$ 1,953,613,454		$ 2,218,663,359		$ 265,049,905

Footnotes:

1)	Authorized and Unissued as of 06/30/19	$ 1,326,975,075	A/U 12/31/19	$ 1,095,575,075	$ (231,400,000)
	Less: Canceled 2019/2020	(83,400,000)		(29,568,726)	53,831,274
	Less: Bonds Issued 2019AB	(148,000,000) *			148,000,000
	New Bond Authorization 2020-2021			345,696,000	345,696,000
	Authorized and Unissued as of 12/31/19	$ 1,095,575,075	A/U 6/30/20	$ 1,411,702,349	$ 316,127,274
	TDOT Bond Authorization	$ 736,000,000		$ 860,000,000	$ 124,000,000
	TDOT Bond Authorization - Bridges	29,700,000		600,000	(29,100,000)
	Capital Projects Bond Authorization	329,875,075		551,102,349	221,227,274
		$ 1,095,575,075		$ 1,411,702,349	$ 316,127,274

*Issuance of bond proceeds in the par amount of $128,105,000 plus a premium of $19,895,000 for projects

2)	Authorized and Unissued as of 6/30/19	$ 375,021,730	A/U 12/31/19	$ 324,503,379	$ (50,518,351)
	Less: Canceled 2019/2020	(66,050,540)		(850,000)	65,200,540
	Short term debt expenditures	(10,077,811)		(27,252,370)	(17,174,559)
	New Project Authorization	25,610,000		10,000,000	(15,610,000)
	Authorized and Unissued as of 12/31/2019	$ 324,503,379	A/U 6/30/20	$ 306,401,009	$ (18,102,370)

3) Amount indicated is the unissued remaining statutory debt limit.

Bond Ratings by Program

	Fitch	Moody's	S&P
State of Tennessee	AAA	Aaa	AAA
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 [1]	AA+
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	n/a	Aa1 [1]	AA+
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 [1]	AA+
Tennessee Local Development Authority (TLDA)	AA	n/a	AA [2]
Tennessee Housing Development Agency (THDA) 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (Single Family New Issue Bond Program)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

1 Explanation of Moody's Investors Services Inc. Ratings:

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)
- Programmatic rating - Aa1
- Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)
- Programmatic rating - Aa1
- Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010 (Direct Subsidy Bonds)
- Programmatic rating - Aa1
- Financing rating - Aa2

2 On May 28, 2019, S&P Global Ratings placed the Authority's AA+ rating on its outstanding bonds on a credit watch. On October 1, 2019, S&P Global Ratings lowered its rating to AA and removed the rating from the credit watch.

Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2020

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY 2021	$ 155,410,000	$ 72,715,763	$ 228,125,763
FY 2022	155,710,000	65,503,565	221,213,565
FY 2023	147,750,000	58,460,798	206,210,798
FY 2024	145,095,000	52,237,130	197,332,130
FY 2025	137,940,000	46,487,903	184,427,903
FY 2026	135,730,000	40,680,755	176,410,755
FY 2027	128,675,000	35,114,803	163,789,803
FY 2028	123,885,000	29,842,104	153,727,104
FY 2029	115,400,000	24,651,585	140,051,585
FY 2030	91,050,000	19,983,142	111,033,142
FY 2031	79,905,000	16,037,275	95,942,275
FY 2032	72,030,000	12,561,213	84,591,213
FY 2033	49,775,000	9,763,450	59,538,450
FY 2034	42,770,000	7,554,405	50,324,405
FY 2035	42,770,000	5,449,435	48,219,435
FY 2036	37,220,000	3,481,185	40,701,185
FY 2037	22,910,000	2,007,755	24,917,755
FY 2038	14,120,000	1,111,825	15,231,825
FY 2039	6,405,000	435,645	6,840,645
FY 2040	6,405,000	145,215	6,550,215
	$ 1,710,955,000	**$ 504,224,949**	**$ 2,215,179,949**

Note: New money general obligation debt is issued and structured as 20-year, level principal, fixed interest rate bonds.

Tennessee Loan Programs

State Revolving Fund (SRF) Loan Programs

The TLDA, in conjunction with the Department of Environment and Conservation, administers the Clean Water and Drinking Water SRF Loan Programs, that provides financing in the form of loans to local governments for sewer and safe drinking water projects. The TLDA does not issue debt to finance these loans. The programs are funded by federal capitalization grants and state appropriations. Therefore, the dollar amount of loans managed for the SRF Loan Programs is not included in the Total State Indebtedness.

Clean Water State Revolving Fund (CWSRF)

The Clean Water SRF Loan Program was established pursuant to the Federal Clean Water Act as amended by the Water Quality Act of 1987 and the State Wastewater Facilities Act of 1987.

Drinking Water State Revolving Fund (DWSRF)

The Drinking Water SRF was established pursuant to the Federal Safe Drinking Water Act and the State Drinking Water Revolving Loan Fund Act of 1997.

State Infrastructure Fund (SIF) Loan Program

The TLDA is also responsible for approving loans to local governments from the SIF for the construction of transportation infrastructure (street, highway, bridge, tunnel and any related roadway facilities) projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public. The TLDA administers the SIF program in conjunction with the Department of Transportation. The TLDA cannot issue debt to finance these loans. Therefore, the dollar amount of loans managed for the SIF Loan Programs is not included in the Total State Indebtedness.

Energy Efficient Schools Initiative (EESI) Loan Program

The EESI Program was established by the Tennessee General Assembly in 2008 with a twelve-member council, the Energy Efficient Schools Council, to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs. The EESI grants and loans provide funding for capital outlay projects to improve the energy efficiency in Tennessee's public K-12 schools. The program was initially funded through an appropriation of excess lottery funds in 2008, and additional funds were appropriated by the state in 2019. The Energy Efficient Schools Council contracts with the Office of State and Local Finance for the administration of these loans. The EESI does not issue debt in the capital marketplace; therefore, the dollar amount of loans managed for the EESI Loan Programs is not included in the Total State Indebtedness.

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	As of December 31, 2019		As of June 30, 2020		Variance Increase (Decrease)	
	Number of Loans / Projects	Loans Outstanding	Number of Loans / Projects	Loans Outstanding	Number of Loans / Projects	Loans Outstanding
State Revolving Fund Loan Program						
Clean Water (Sewerage)						
Principal Outstanding	233	$ 707,468,130	238	$ 758,436,109	5	$ 50,967,979
Drinking Water						
Principal Outstanding	140	$ 130,628,051	143	$ 127,718,149	3	$ (2,909,902)
State Infrastructure Fund (SIF)	1	$ 1,464,622	1	$ 1,433,692	-	$ (30,930)
Energy Efficient Schools Initiative (EESI)	76	$ 67,798,483	77	$ 66,148,215	1	$ (1,650,268)

Change in Loans Outstanding from Prior Period

State Revolving Fund Loan Programs

Clean Water State Revolving Fund (CWSRF)

- During the period from December 31, 2019, to June 30, 2020, the loan balance increased $51 million. Eight new loans were added to the program. Two loans were prepaid during this period, and one loan was paid off in accordance with its payment schedule. During this time, approximately $21.1 million in loan repayments were received and approximately $72.1 million was disbursed to borrowers.

Drinking Water State Revolving Fund (DWSRF)

- During the period from December 31, 2019, to June 30, 2020, the loan balance decreased $2.9 million. Five new loans were added to the program. One loan was prepaid during this period, and one loan was paid off in accordance with its amortization schedule. During this time, approximately $7.7 million in loan repayments were received and approximately $4.8 million was disbursed to borrowers.

State Infrastructure Fund (SIF)

- During the period from December 31, 2019, to June 30, 2020, no funds were disbursed to the one borrower and the loan entered repayment. Repayments received decreased the loan balance in the amount of $30,930 during the period.

Energy Efficient Schools Initiative (EESI)

- During the period from December 31, 2019, to June 30, 2020, the loan balance decreased approximately $1.7 million. Two new loans were added to the program and one loan was repaid in full. During this time, approximately $4.6 million in loan repayments were received and approximately $2.8 million was disbursed to borrowers.

Board Membership

State Funding Board

Governor Bill Lee, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Butch Eley, Commissioner of Finance and Administration

Tennessee State School Bond Authority

Governor Bill Lee, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Butch Eley, Commissioner of Finance and Administration
Randy Boyd, President, University of Tennessee
Dr. Flora W. Tydings, Chancellor, Tennessee Board of Regents

Tennessee Local Development Authority

Governor Bill Lee, Chairman
Secretary of State Tre Hargett, Vice-Chairman
Comptroller Justin P. Wilson, Secretary
State Treasurer David H. Lillard, Jr.
Butch Eley, Commissioner of Finance and Administration
Pat Wolfe, Washington County, Tennessee, Senate Appointee
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

Tennessee Housing Development Agency Bond Finance Committee

Mike Hedges, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Butch Eley, Commissioner of Finance and Administration

Acknowledgments

Office of State and Local Finance*

Sandi Thompson, Director
Kristi Harris
Jacqueline Felland
Tammy Fields
Mark Graubner
Donna Kaukas
Cindy Liddell
Michael Mercer, CPA
Steve Osborne
Ron Queen, CPA
Sheila Reed, CPA
Sharon Schmucker, CPA
Alicia West
Lori Barnard

Tennessee Housing Development Agency

Trent Ridley, Chief Financial Officer
Wayne Beard, CPA, Director of Finance

*On July 1, 2020, the Office of State and Local Finance was renamed the Division of State Government Finance