Tennessee Local Development Authority

DEBT MANAGEMENT POLICY

Prepared by:

Division of State Government Finance

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Debt Management Policy

Introduction

Debt management policies provide written guidance about the amount and type of debt issued by governments, the issuance process for such debt, and the management of the debt portfolio. A debt management policy tailored to the needs of the Tennessee Local Development Authority (the "Authority"): (1) identifies policy goals and demonstrates a commitment to long-term financial planning; (2) improves the quality of decisions concerning debt issuance; and (3) provides justification for the structure of debt issuance. Adherence to its debt management policy signals to rating agencies and the capital markets that the Authority is well-managed and able to meet its obligations in a timely manner.

Debt levels and their related annual costs are important financial considerations that impact the use of current resources. An effective debt management policy provides guidelines for the Authority to manage its debt program in line with those resources.

In 1978, the General Assembly created the Authority [Sections 4-31-101 et seq., Tennessee Code Annotated]. The Authority is a corporate governmental agency and instrumentality of the State of Tennessee (the "State"). The Authority is comprised of the Governor, the Secretary of the State, the State Comptroller of the Treasury, the State Treasurer, the Commissioner of Finance and Administration, a Senate appointee and a House appointee.

The Authority is authorized to issue debt to (i) loan funds to local governments for sewage treatment and waterworks (the "State Loan Programs"), capital projects, firefighting equipment, and 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 (the Community Provider Pooled Loan Program or the "CP Program"); (v) make loans to local government units to finance construction of capital outlay projects for K-12 educational facilities; (vi) make payment on covered claims against insurers operating in this state which have been deemed insolvent as the result of a natural disaster; and (vii) make the proceeds available to petroleum underground storage tank board for purposes of providing for the reimbursement of reasonable and safe cleanup of petroleum sites. 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.

The Authority issues debt only pursuant to the provisions of the TLDA State Loan Programs General Bond Resolution adopted by the Authority on August 3, 1982 as amended and supplemented and restated and readopted on March 14, 1985 and as amended on May 17, 1989. This Policy applies only to that program. The TLDA has oversight for the State Revolving Fund and State Infrastructure Loan Programs; however, since debt is not issued for these programs, they are not included in this policy.

The Division of State Government Finance (SGF) serves as staff to the Authority. The Director of SGF serves as the Assistant Secretary to the Authority.

Goals and Objectives

The Authority is establishing this debt policy as a tool to ensure that financial resources are adequate to meet the Authority's long-term debt program and financial planning. In addition, this Debt Management Policy (the "Policy") helps to ensure that financings undertaken by the Authority satisfy certain clear objective standards designed to protect the Authority's financial resources and to meet its long-term capital needs.

A. The Goals of this Policy

- To document responsibility for the oversight and management of debt related transactions;
- To define the criteria for the issuance of debt;
- To define the types of debt approved for use within the constraints established by the General Assembly;
- To define the appropriate uses of debt;
- To define the criteria for evaluating refunding candidates or alternative debt structures; and
- To minimize the cost of issuing and servicing debt.

B. The Objectives of this Policy

- To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;
- To identify legal and administrative limitations on the issuance of debt;
- To ensure the legal use of the Authority's debt issuance authority;
- To maintain appropriate resources and funding capacity for present and future capital needs;
- To protect and enhance the Authority's credit rating;
- To evaluate debt issuance options;
- To promote cooperation and coordination with other stakeholders in the financing and delivery of services;
- To manage interest rate exposure and other risks; and
- To comply with federal Regulations and generally accepted accounting principles ("GAAP").

Debt Management/General

A. Purpose and Use of Debt Issuance

Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State (including Title 4, Chapter 31, and Title 68, Chapter 221, Parts 2 and 5, Tennessee Code Annotated), pursuant to resolutions adopted by the Authority.

- Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs of projects as authorized by the bond authorization and a resolution of the Authority.
- Bonds may be issued to refund outstanding debt.

B. Debt Capacity Assessment

The dollar amount of debt that the Authority may issue and that may be outstanding for the State Loan Programs is not limited by statute; however, debt issued for this program shall be "limited special obligations" of the Authority payable solely from and secured by payments made by local government units, or state-shared taxes withheld, pursuant to loan program agreements.

C. Federal Tax Status

- **Tax-Exempt Debt -** The Authority will use its best efforts to maximize the amount of debt sold under this Policy using tax-exempt financing based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints.
- **Taxable Debt -** The Authority will sell taxable debt when necessary to finance projects not eligible to be financed with tax-exempt debt.
- Legal Limitations on the Use of Debt
- No debt obligation shall be sold to fund the current operation of any state service or program.
- The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized and applied to fund loan program agreements only when the ratio of unobligated state-shared taxes complies with state statutes, including any pledge of the statutory reserve fund.
- Notes may be issued only when the Comptroller has filed a certificate as required by TCA Section 4-31-108(f), including the certification that loan program agreements are in place that will utilize at least 75% of the note proceeds.

Types of Debt

A. Bonds

The Authority may issue limited special revenue bonds, backed by payment pursuant to loan program agreements. These bonds may be structured as:

- **Fixed Interest Rate Bonds** – Bonds that have an interest rate that remains constant throughout the life of the bond.
  - Serial Bonds
  - Term Bonds
- **Variable Interest Rate Bonds** – Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.

B. Short-Term Debt

Pending the issuance of the definite bonds authorized by the bond authorizations, the Authority may issue short-term debt. Such debt shall be authorized by resolution of the Authority. Typically, short-term debt is issued during the construction period to take advantage of the lower short-term interest rates. Short-term debt will be subsequently repaid with proceeds from the sale of long-term debt or fees and charges from the borrowers. Short-term debt may include:

- **Bond Anticipation Notes ("BANs")** – BANs are short-term interest-bearing securities generally issued to finance a capital project during construction.
- **Fixed Rate Notes** – Notes issued for a period of time less than eight years at a fixed interest rate.
- **Variable Rate Notes –** Notes which bear variable interest rates until redeemed. Provisions as to the calculation or change of variable interest rates shall be included in the authorizing resolution.
- **Commercial Paper ("CP")** – CP is a form of bond anticipation note that has a maturity up to 270 days, may be rolled to a subsequent maturity date and is commonly used to finance a capital project during construction. It can be issued incrementally as funds are needed.
- **Revolving Credit Facility –** A form of bond anticipation note involving the extension of a line of credit from a bank. The bank agrees that the revolving credit facility can be drawn upon incrementally as funds are needed. The draws upon the line of credit may bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing credit agreement.

Debt Management Structure

The Authority shall establish by resolution all terms and conditions relating to the issuance of debt and will invest all proceeds pursuant to the terms of the Authority's authorizing resolution and the State's investment policy.

A. Term

The term of any debt (including refunding debt) used to purchase or otherwise obtain or construct any equipment, goods, or structures shall have a reasonably anticipated lifetime of use equal to or less than the average useful life of the project. The final maturity of the bond debt should be limited to thirty (30) years after the date of issuance or the date the project is deemed complete or placed in service, whichever is earlier.

The final maturity of notes and any renewals is limited to eight years from the date of issue of the original notes unless the Authority has begun repayment of principal and the ultimate maturity of the notes will not exceed thirty (30) years from the date of first issuance or the date the project is deemed complete or placed in service, whichever is earlier.

B. Debt Service Structure

Debt issuance shall be planned to achieve level debt service unless otherwise determined by the Authority. The Authority shall avoid use of bullet or balloon maturities; this does not include term bonds with mandatory sinking fund requirements.

No debt shall be structured with other than at least level debt service unless such structure is specifically approved by a majority vote of the members of the Authority.

C. Call Provisions

When issuing new debt, the structure may include a call provision that occurs no later than ten years from the date of delivery of the bonds. Call provisions should be structured to provide the maximum flexibility relative to cost. The Authority will avoid the sale of long-term non-callable bonds absent careful evaluation by the SGF and consultation with the Financial Advisor with respect to the value of the call option.

D. Original Issuance Discount/Premium

Bonds sold with original issuance discount/premium are permitted with the approval of the Authority.

Refunding Outstanding Debt

The Authority may refund outstanding bonds by issuing new bonds. Authority staff with assistance from the Authority's financial advisor ("Financial Advisor") shall have the responsibility to analyze outstanding bond issues for refunding opportunities, whether for economic, tax-status, or project reasons.

A. Refunding Opportunities

The bonds may be considered for refunding when:

- Advance Refunding:
  - The refunding results in present value savings of at least 4.0% per series of refunded bonds. Consideration will be given to escrow efficiency when reviewing refunding candidates.
- Current Refunding:
  - The refunding results in present value savings of at least 2% per series of refunded bonds; or the present value savings per series must be equal to or greater than twice the cost of issuance allocable to the refunding series.
- Refunding for Other Purposes:
  - The refunding of the bonds is necessary due to a change in the use of a project that would require a change to the tax status of the bonds; or
  - The project is sold or no longer in service while still in its amortization period; or
  - Restrictive covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.

After consultation with the Financial Advisor, the Comptroller may waive the foregoing refunding considerations given that the sale of refunding bonds will still accomplish cost savings to the public. Such waiver shall be reported in writing to the Authority at its next meeting.

B. Term of Refunding Issues

The Authority will refund bonds within the same fiscal year of the term of the originally issued debt. No backloading of debt will be permitted.

C. Escrow Structuring

The Authority shall structure refunding escrows using legally permitted securities deemed to be prudent under the circumstances and will endeavor to utilize the least costly securities unless considerations of risk, reliability and convenience dictate otherwise. The Authority will take competitive bids on any selected portfolio of securities and will award to the lowest cost provider giving due regard to considerations of risk and reliability or unless State and Local Government Series securities ("SLGS") are purchased directly from the federal Government. The provider must guarantee the delivery of securities except for SLGs. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Authority from its own account.

D. Arbitrage

The Authority shall take all reasonable steps to optimize escrows and to avoid negative arbitrage in its refunding subject to the State's investment policy subject to Section 4-31-104(6) of the TCA. Any positive arbitrage will be rebated as necessary according to federal guidelines (see also "Federal Regulatory Compliance and Continuing Disclosure – A. Arbitrage").

E. Cost of Issuance

Costs of issuance includes fees paid for professional services provided to the Board in the debt issuance process, including underwriting fees.

Methods of Sale

A. Competitive

In a competitive sale, the Authority's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. The competitive sale is the Authority's preferred method of sale.

B. Negotiated

While the Authority prefers the use of a competitive process, the Authority recognizes that some securities are best sold through negotiation. The underwriting team will be chosen and the underwriter's fees negotiated prior to the sale. See section below titled "Selection of Underwriting Team (Negotiated Transaction)." In its consideration of a negotiated sale, the Authority will assess the following factors:

- A structure which may require a strong pre-marketing effort such as a complex transaction;
- Volatility of market conditions and whether the Authority would be better served by flexibility in timing a sale;
- Size of the bond sale may limit the number of potential bidders;
- Credit strength of the Authority and that of its borrowers;
- Whether or not the bonds are issued as variable rate demand obligations;
- Tax status of the bonds; and

- If legal or disclosure issues make it advisable in marking bonds

C. Private Placement

From time to time, the Authority may need to consider privately placing its debt. Such placement shall only be considered for debt transactions where the size is too small or the structure is too complicated for public debt issuance, the market of purchasers is limited, and/or will result in a cost savings to the Authority relative to other methods of debt issuance.

Selection of Underwriting Team (Negotiated Transaction)

If there is an underwriter, the Authority shall require the underwriter to clearly identify itself in writing, whether in a response to a request for proposals ("RFP") or in promotional materials provided to the Authority or otherwise, as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Authority with respect to that issue. The underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that it has financial and other interests that differ from those of the Authority. The underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the Authority or its designated official in advance of the pricing of the debt.

A. Senior Manager

The Authority with assistance from its staff and financial advisor shall select the senior manager(s) for a proposed negotiated sale. The selection criteria shall include but not be limited to the following:

- Experience in selling Tennessee debt;
- Ability and experience in managing complex transactions;
- Prior knowledge and experience with the Authority;
- Willingness to risk capital and demonstration of such risk;
- Quality and experience of personnel assigned to the Authority's engagement;
- Financing ideas presented; and
- Underwriting fees.

B. Co-Manager

Co-managers will be selected on the same basis as the senior manager(s). The number of co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the Authority's bonds. The Secretary or Assistant Secretary to the Authority will, at his or her discretion, affirmatively determine the designation policy for each bond issue.

C. Selling Groups

The Authority may use selling groups in certain transactions to maximize the distribution of bonds to retail investors. Firms eligible to be a member of the selling group, should either have a public finance department or pricing desk located within the boundaries of the State. To the extent that selling groups are used, the Secretary or Assistant Secretary of the Authority at his or her discretion may make appointments to selling groups as the transaction dictates.

D. Underwriter's Counsel

In any negotiated sale of the Authority's debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager

Credit Quality

The Authority's debt management activities will be conducted to receive the highest credit ratings possible, consistent with Authority's financing objectives.

The Office of the Comptroller of the Treasury through the Division of State Government Finance will be responsible for the communication of information to the rating agencies and keeping them informed of significant developments throughout the year. The Office of the Comptroller of the Treasury through the SGF will schedule rating agency calls and/or visits prior to the issuance of bonds.

The Office of the Comptroller of the Treasury through the SGF, together with the Financial Advisor, shall prepare presentations to the rating agencies to assist credit analysts in making an informed decision.

The Authority, with the assistance of the Financial Advisor, shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies will be asked to provide such rating.

Security for the TLDA Bond Program

The Security for bonds and notes of the TLDA is the pledge of revenue received by the Authority from the borrowers and the statutory reserve fund. The moneys and securities on deposit in the Statutory Fund may only be withdrawn at the request of the Authority. If there has been a withdrawal from the Statutory Fund in any bond year, the Authority shall deposit in the Statutory Fund an amount equal to the withdrawal and interest thereon from moneys on deposit in the State Loan Program Fund or the General Fund.

For the State Loan Program, the security is the pledge of the system revenues, a general obligation pledge of the borrowing local government, the debt service reserve fund, and the intercept of state-shared taxes. The debt service reserve fund contains a deposit from the borrower equal to one year of the maximum annual debt service. State-shared taxes may be taken if the borrower is delinquent in payments. The intercept of state-shared taxes will be tested periodically.

Credit Enhancements

The Authority will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost. Only when clearly demonstrable savings can be shown shall an enhancement be utilized. The Authority may consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

A. Bond Insurance

The Authority may purchase bond insurance when such purchase by the Authority is deemed prudent and advantageous. The primary consideration shall be based on whether such insurance is less costly. For competitive sales, the purchaser of the bonds may be allowed to determine whether bond insurance will be used and will be included in the bid for the bonds and will be paid for by the purchaser of the bonds. If the Authority decides to purchase insurance, it shall do so on a competitive bid basis whenever practicable. In a negotiated sale, the Authority will select a provider whose bid is most cost effective and will consider the

credit quality of the insurer and that the terms and conditions governing the guarantee are satisfactory to the Authority.

B. Letters of Credit

The Authority may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The Authority will prepare and distribute an RFP to qualified banks or other qualified financial institutions, which includes terms and conditions that are acceptable to the Authority. The LOC will be awarded to the bank or financial institution providing the lowest cost bid with the highest credit quality that meets the criteria established by the Authority.

C. Liquidity

For variable rate debt requiring liquidity facilities to protect against remarketing risk, the Authority will evaluate:

- Alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and line of credit, in order to balance the protection offered against the economic costs associated with each alternative;
- Diversification among liquidity providers, thereby limiting exposure to any individual liquidity provider;
- All cost components attendant to the liquidity facility, including commitment fees, standby fees, draw fees, and interest rates charged against liquidity draws; and
- A comparative analysis and evaluation of the cost of external liquidity providers compared to the requirements for self-liquidity.

The winning bid will be awarded to the bank or financial institution providing the lowest cost with the highest credit quality that meets the criteria established by the Authority.

D. Use of Structured Products

No interest rate agreements or forward purchase agreements will be considered unless the Authority has established a policy defining the use of such products before the transaction is considered.

Risk Assessment

The SGF will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks. The SGF will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

A. Change in Public/Private Use

The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.

B. Default Risk

The risk that debt service payments cannot be made by the due date.

C. Liquidity Risk

The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing of short-term debt.

D. Interest Rate Risk

The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issue had been fixed.

E. Rollover Risk

The risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of a contract period

F. Market Risk

The risk that in the event of failed remarketing of short-term debt, the liquidity provider fails.

Transparency

The Authority shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. All costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens in a timely manner. Additionally, the Authority will provide certain financial information and operating data by specified dates, and to provide notice of certain enumerated events with respect to the bonds, pursuant to continuing disclosure undertakings requirements of the U.S. Securities and Exchange Commission ("SOC") Rule 15c2-12. The Authority intends to maintain transparency by:

- Posting the Official Statement of a bond sale to the Authority's website within two weeks of the closing of such sale;
- Preparing and filing with the Division of Local Government Finance (LGF) a copy of the costs related to the issuance of a bond and other information as required by Section 9-21-151, of the TCA, within 45 days of the closing of such sale, and presenting the original of such document to the Authority at its next meeting (see also "Debt Administration – B. Post Sale"); and
- Electronically submitting through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") website the information necessary to satisfy the Authority's continuing disclosure requirements for the bonds in a timely matter (see also "Federal Regulatory Compliance and Continuing Disclosure").

Professional Services

The Authority requires all professionals engaged to assist in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by the Authority. This includes "soft" costs or compensations in lieu of direct payments.

A. Issuer's Counsel

The Authority will enter into an engagement letter agreement with each lawyer or law firm representing the Authority in a debt transaction. No engagement letter is required for any lawyer who is an employee of the Office of Attorney General and Reporter for the State of

Tennessee who serves as counsel to the Authority or of the Office of General Counsel, Office of the Comptroller of the Treasury, which serves as counsel to the SGF regarding Authority matters.

B. Bond Counsel

Bond counsel shall be engaged through the SGF and serves to assist the Authority in all its general obligation debt issues under a written agreement.

C. Financial Advisor

The Financial Advisor shall be engaged through the SGF and serves and assists the Authority on financial matters under a written agreement. However, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which it is or has been providing advisory services. The Financial Advisor has a fiduciary duty including a duty of loyalty and a duty of care.

D. Refunding Trustee

The Refunding Trustee shall be appointed by resolution of the Authority adopted prior to the issuance of any of refunding bonds. The Refunding Trustee will be a bank, trust company or national banking association that provides Paying Agent and Registrar services.

E. Dealer

The Authority will enter into a Dealer Agreement with the appointed CP dealer. The Dealer agrees to offer and sell the CP, on behalf of the Authority, to investors and other entities and individuals who would normally purchase commercial paper.

F. Issuing and Paying Agent

The Authority covenants to maintain and provide an Issuing and Paying Agent at all times while the CP is outstanding. The Authority will enter into an Issuing and Paying Agency Agreement with an appointed firm. The Issuing and Paying Agent will be a bank, trust company or national banking association that has trust powers.

G. Credit/Liquidity Provider

The Authority shall enter into a Credit Agreement with the appointed credit provider. A credit provider shall be a bank or lending institution that extends credit to the Authority in the form of a revolving credit facility, a line of credit, a loan or a similar credit product or as a liquidity facility for CP.

H. Verification Agent

The Verification Agent will be selected through a request for proposal process prior to the issuance of refunding bonds. The Verification Agent primarily verifies the cash flow sufficiency to the call date of the escrowed securities to pay the principal and interest due on refunded bonds.

I. Escrow Bidding Agent

The Escrow Bidding Agent will be selected through a request for proposal process prior to the issuance of refunding bonds. With regards to structuring the refunding escrow with investment securities, the Escrow Bidding Agent will prepare bidding specifications, solicit bids for investment securities, review and evaluate responses to the bids, accept and award bids, and provide final certification as to completion of requirements.

Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the Authority shall be required to disclose to the Authority existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators and other issuers whom they may serve. This disclosure shall include such information that is reasonably sufficient to allow the Authority to appreciate the significance of the relationships.

Professionals who become involved in a debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure provision. No disclosure is required if such disclosure would violate any rule or regulation of professional conduct.

Debt Administration

A. Planning for Sale

Before the issuance of bonds, the procedures outlined below will be followed:

- Prior to submitting a bond resolution for approval, the Director of the SGF (the "Director"), with the assistance of the Financial Advisor, will present to staff of the members of the Authority information concerning the purpose of the financing, the estimated amount of financing, the proposed structure of the financing, the proposed method of sale for the financing, members of the proposed financing team, and an estimate of all the costs associated with the financing, and;
- In addition, in the case of a proposed refunding, proposed use of credit enhancement, or proposed use of variable rate debt, the Director will present the rationale for using the proposed debt structure, an estimate of the expected savings associated with the transaction and a discussion of the potential risks associated with the proposed structure.
- The Director (with the assistance of staff in the SGF) with the advice of Bond Counsel, the Financial Advisor, and other members of the financing team, will prepare a Preliminary Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.

B. Preparing for Bond Closing

In preparation for the bond closing, the procedures outlined below will be followed:

- The Director (with the assistance of staff in the SGF), Bond Counsel, and the Financial Advisor, along with other members of the financing team will prepare an Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.
- The Financial Advisor will provide a closing memorandum with written instructions on transfer and flow of funds.
- The Authority's staff, with assistance from the Financial Advisor, will evaluate each bond sale after completion to assess the following: costs of issuance including the underwriter's compensation, pricing of the bonds in terms of the

overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credit, if applicable.

- The Director will present a post-sale report to the members of the Authority describing the transaction and setting forth all the costs associated with the transaction.
- Within 45 days from closing, the Director will prepare a Form CT-0253 - "Report on Debt Obligation" outlining costs related to the issuance and other information set forth in Section 9-21-151 of the TCA, and also present the original at the next meeting of the Authority and file a copy with the LGF.
- The Director will establish guidelines and procedures for tracking the flow of all bond proceeds, as defined by the Internal Revenue Code, over the life of bonds reporting to the Internal Revenue Service all arbitrage earnings associated with the financing and any tax liability that may be owed.
- The Post-Issuance Compliance ("PIC") team will meet annually to review matters related to compliance and complete the PIC checklist.
- As a part of the PIC procedures, the Director (with the assistance of staff in the SGF) will, no less than annually, request confirmation from the responsible department that there has been no change in use of tax-exempt financed facilities.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

The SGF will comply with arbitrage requirements on invested tax-exempt bond funds. Proceeds that are to be used to finance construction expenditures are exempted from the filing requirements, provided that the proceeds are spent in accordance with requirements established by the IRS. The Authority will comply with all of its tax certificates for tax-exempt financings by monitoring the arbitrage earnings on bond proceeds on an interim basis and by rebating all positive arbitrage when due, pursuant to Internal Revenue Code, Section 148. The Authority currently contracts with an arbitrage consultant to prepare these calculations, when needed. The Authority will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three years after the final redemption date of the transaction.

B. Investment of Proceeds

Any proceeds or other funds available for investment by the Authority must be invested per Section 4-31-104(6) of the TCA, subject to any restrictions required pursuant to the next sentence or pursuant to any applicable bond issuance authorization. Compliance with federal tax code arbitrage requirements relating to invested tax-exempt bond funds will be maintained. Compliance with arbitrage requirements on invested tax-exempt bond funds will be maintained.

Proceeds used to refund outstanding long-term debt shall be placed in an irrevocable refunding trust fund with the Refunding Trustee. The investments (i) shall not include mutual funds or unit investment trusts holding such obligations, (ii) are rated not lower than the second highest rating category of both Moody's Investors Service, Inc. and Standard & Poor's Global rating services and (iii) shall mature and bear interest at such

times and such amounts as will be sufficient, together with other moneys to pay the remaining defeasance requirements of the bonds to be redeemed.

C. Disclosure

The Authority will disclose on EMMA the State's and the Authority's audited Comprehensive Annual Financial Report as well as certain financial information and operating data required by the continuing disclosure undertakings for the outstanding bonds no later than January 31st of each year. The Authority will also, in accordance with the continuing disclosure undertakings, disclose on EMMA within ten business days after the occurrence of the following events relating to the bonds to which the continuing disclosure undertakings apply:

- Principal and interest payment delinquencies.
- Nonpayment-related defaults, if material.
- Unscheduled draws on debt service reserves reflecting financial difficulties.
- Unscheduled draws on credit enhancements reflecting financial difficulties.
- Substitution of credit or liquidity providers or their failure to perform.
- 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 such bonds or other material events affecting the tax status of such bonds.
- Modifications to rights of bondholders, if material.
- Bond calls, if material, and tender offers.
- Defeasances.
- Release, substitution or sale of property securing the repayment of the bonds, if material.
- Rating changes
- Bankruptcy, insolvency, receivership, or similar event of the State.
- Consummation of a merger, consolidation, or acquisition involving the Authority or sale of all or substantially all of the assets of the Authority, other than in the course of ordinary business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- Appointment of successor trustee or the change of name of a trustee, if material.

The Securities and Exchange Commission (SEC) adopted amendments to Rule 15c2-12 of the Securities Exchange Act that require reporting on material financial obligations that could impact an issuer's financial condition or security holder's rights. The amendments add two events to the list of events that must be included in any continuing disclosure agreement that is entered into on or after February 27, 2019:

- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other

similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and

- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

D. Generally Accepted Accounting Principles (GAAP)

The Authority will comply and prepare its financial reports in accordance with the standard accounting practices adopted by the Governmental Accounting Standards Board and with the accounting policies established by the Department of Finance and Administration when applicable.

Review of the Policy

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The Authority maintains the right to modify these guidelines and may make exceptions to any of them at any time to the extent that the execution of such debt achieves the Authority's goals.

This policy will be reviewed by the Authority no less frequently than annually. At that time, the Director will present any recommendations for any amendments, deletions, additions, improvement, or clarification.

Adoption of the Policy

After a public hearing on December 7, 2011, the Authority adopted this Policy, effective December 7, 2011.

After a public hearing on May 11, 2017, the Board adopted the amended Policy on May 11, 2017, effective May 11, 2017.

After a public hearing on July 22, 2021 the Board adopted the amended Policy on July 22, 2021, effective July 22, 2021.

Vice-Chair

Tennessee Local Development Authority

APPENDIX A

Annual Review

The Authority has reviewed and accepted the Debt Management Policy on:

October 8, 2014
November 19, 2015
July 20, 2020
July 26, 2022