TENNESSEE STATE SCHOOL BOND AUTHORITY

DEBT MANAGEMENT POLICY

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Debt Management Policy

Introduction

The Tennessee State School Bond Authority (the "Authority"), created in 1965 under the Tennessee State School Bond Authority Act (the "Act"), Sections 49-3-1201 *et seq*., Tennessee Code Annotated ("Tenn. Code Ann."), is a corporate governmental agency and instrumentality of the State of Tennessee ("State") whose purpose is to finance revenue generating capital projects for public institutions of higher education located in Tennessee ("Higher Education Institutions") by issuing bonds and notes of the Authority and to finance projects approved pursuant to the Qualified School Construction Bond Program ("QSCB")(federal government program for local education agencies).

The Authority finances a variety of revenue generating higher education projects including but not limited to dormitories, athletic facilities, parking facilities and major equipment purchases. These projects stand in contrast to non-revenue generating capital projects for basic academic needs such as classrooms and libraries that are funded from the proceeds of the State's general obligation bonds.

QSCB projects include construction of new schools, renovation, and rehabilitation of existing schools, as well as purchase of land and equipment for use in qualified projects.

The Division of State Government Finance (SGF) serves as staff to and performs certain duties and functions for and at the direction of the Authority. SGF is responsible for managing the debt of the Authority, including the issuance of all bonds and notes and the repayment of such debt. The Director of SGF serves as the Assistant Secretary to the Authority.

Purpose

A debt management policy is established to provide written guidance for a government regarding: the amount and type of debt that may be issued, the debt issuance process, management of the debt portfolio, the investment of bond proceeds, and compliance with regulatory authorities. A debt management policy tailored to the needs of the Authority: (i) identifies policy goals and demonstrates a commitment to long-term financial planning; (ii) assists the Authority in its decisions concerning debt issuance; and (iii) provides justification for the issuance and structure of the debt. The Authority's compliance with its debt management policy indicates to the rating agencies and the capital markets that the Authority is well managed with the ability to meet its obligations in a timely manner.

Annual costs related to debt 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 programs in line with those resources.

The QSCB program is limited to the amounts allocated by the federal government. The Authority adopted the Qualified School Construction Bonds General Bond Resolution on November 5, 2009, authorizing the issuance of QSCBs thereunder from time to time pursuant to Supplemental Resolutions. The Tax Cuts and Jobs Act, passed in December 2017, repealed the issuance of tax credit bonds, including QSCBs.

This policy applies to the QSCB program for purposes of Debt Maintenance and Federal Regulatory Compliance and Continuing Disclosure.

Goals and Objectives

The Authority has established this Debt Management Policy (the "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 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 types of debt approved for use within the constraints established by the Tennessee General Assembly;
- To define and establish the criteria for the issuance of debt;
- To define the appropriate uses of debt;
- To define and establish the criteria for evaluating refunding candidates or alternative debt structures; and
- To establish certain parameters 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, financial, and administrative limitations on the issuance of debt;
- To ensure appropriate legal use of the Authority's debt issuance authority;
- To ensure the Authority maintains appropriate resources and funding capacity for present and future capital needs;
- To protect and enhance the Authority's credit rating;
- To evaluate and consider all possible debt issuance options;
- To create and maintain transparency throughout the debt issuance and management process;
- 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. Laws of the State and generally accepted accounting principles ("GAAP").

Debt Management

A. Purpose and Use of Debt Issuance

- Debt is to be issued pursuant to the Act, as amended, and the Higher Educational Facilities Second Program General Bond Resolution (adopted by the Authority on April 27, 1998, authorizing the issuance of Higher Educational Facilities Second Program Bonds from time to time by Supplemental Resolutions).
- Debt was issued pursuant to the American Recovery and Reinvestment Act (ARRA) of 2009 and the Qualified School Construction Bonds General Bond Resolution (adopted by the Authority on November 5, 2009, authorizing the issuance of QSCB Bonds from time to time by Supplemental Resolutions).
- The Authority and (i) the Board of Trustees of the University of Tennessee ("UT") and (ii) the Tennessee Board of Regents ("TBR") (together, "the Boards" and each an "Institution") have entered into a Financing Agreement. Debt may be used to finance capital projects as defined in the Financing Agreements.
- Debt may be used to financing capital projects as long as each project is brought before the Authority for consideration and approval for financing, and it shall have been reviewed by the

Tennessee Higher Education Commission (THEC) and disclosed in the state's budget. Projects must additionally be approved by the State Building Commission.

- Debt may be used to finance project costs which include all direct capital costs and indirect capital costs of projects, including but not limited to costs of construction and acquisition, costs of issuance of debt, funded interest on debt, and amounts to fund or replenish reserves, if and to the extent approved by the Authority.
- In compliance with Article II, Section 24 of the Tennessee Constitution, no budgeted current operational expenditures (including internal employee labor) shall be reimbursed with debt proceeds unless such debt is retired/repaid within the fiscal year of issuance.
- Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs as authorized by the Authority.
- Bonds may be issued to refund outstanding debt.

B. Debt Capacity Assessment for Higher Educational Institutions Bonds and Notes

- This Policy requires the assessment of the debt capacity of the Higher Education Institutions on a project-by-project basis as each project is presented for approval. While the security and the debt service coverage for bonds are considered at the Institution level, the debt capacity assessment is performed for the governing body/board of trustees – the UT system, each of the six Locally Governed Institutions (LGIs) individually, or TBR for the community colleges (each a "School"). A project will only be approved for debt funding if the School can demonstrate annual pledged revenue sufficient to cover projected annual debt service on the project.
- Bond anticipation notes are limited to the amount stated in the related Resolution and/or Credit Agreement.

C. Federal Tax Status

- **Tax-Exempt Debt** – The Authority will use its best efforts to maximize the amount of debt sold as tax-exempt based on the following 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 constraints on investment of debt proceeds.
- **Taxable Debt** – The Authority will sell taxable debt when necessary to finance projects not eligible to be financed with tax-exempt debt. However, the Authority may finance taxable projects within the permitted limits of tax-exempt financings whenever possible.

D. Legal Limitations on the Use of Debt

- Pursuant to Tenn. Code Ann. § 47-3-1207(d)(4), limitations on the purpose to which the proceeds of sale of bonds or notes may be applied are contained in the resolution or resolutions authorizing the bonds or notes.
- No debt may be issued for a term that is longer than the useful life of the capital project it is funding.

E. Security for the Higher Educational Institution Bonds and Notes

The Higher Educational Second Program bonds and notes are secured from the annual financing charges, legislative appropriations and other moneys and securities held or set aside pursuant to the Second Program General Bond Resolution and Financing Agreements. The Authority periodically verifies that the gross revenues (fees and charges) of each Higher Education Institution are no less than two times the amount required for the payment of the annual financing charges. The Boards covenant and agree in the Financing Agreements to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution.

- **Financing Agreements**. The Authority and the Board of Trustees of the University of Tennessee and the Tennessee Board of Regents (together, "the Boards") have entered into a Financing Agreement. The Financing Agreements obligate the Boards to pay to the Authority the annual financing charges sufficient for payment of the debt service on the bonds.
- **Debt Service Reserve Fund.** The Authority's Second Program General Bond Resolution provides that a Debt Service Reserve Fund shall be established for each bond that is issued.
- **Cash Funded Debt Service Reserve -** a fund in which moneys are placed in reserve to be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund is funded with bond proceeds at the time of issuance. The balance in the debt service reserve fund will be used to pay the final maturity of that bond. It is the Authority's current practice to establish this fund with no current funding (funded at zero dollars).
- **Reserve Fund Credit Facility -** In lieu of a cash funded Debt Service Reserve, the Authority has the option to use one of the following reserve fund credit facilities; provided, however, that at the time of acceptance by the Authority, the provider's long-term obligations of any nature or claims paying ability are rated, by each Rating Agency then rating any Outstanding Bonds, no lower than the same Rating Category (for this purpose, taking into account refinements and gradations) as the Bonds are then rated by such Rating Agency:
    i. Letter of Credit;
    ii. Debt service reserve insurance policy; or
    iii. any other similar financial arrangement as determined by Supplemental Resolution, and which is used to fund all or a portion of the Debt Service Reserve Requirement
- **Liquidity Facility.** In the event the Authority shall utilize a commercial paper program, the Authority may set up a liquidity facility to provide liquidity to securities that have been tendered. The liquidity facility may be in the form of a letter of credit, advance agreement or other arrangement that may provide liquidity.
- **Interest Rate Reserve Fund (IRRF).** The Authority may establish an IRRF for bond anticipation notes issued for each project to be funded by the borrower. The IRRF shall provide security for interest due on bond anticipation notes that mature between billings. The borrowers shall be charged monthly based on the amount borrowed. When the short-term debt for a project is either repaid or converted into bonds or other long-term debt, the borrower shall be credited its amount invested in the IRRF.
- **Intercept of State Appropriation**s. Section 4.05 of the Authority's Second Program Financing Agreements provides the Authority the ability, in the event the UT or TBR has failed to pay the annual financing charges or administrative fees due, to intercept amounts appropriated by the Tennessee General Assembly for the operation and maintenance of the Institution to cover the amount due and payable.

Types of Debt

Pursuant to Tenn. Code Ann. § 49-3-1207, the Authority is authorized from time to time to issue its negotiable bonds and notes. These include:

A. Long-Term Debt/Bonds

The Authority may issue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. The bonds will be special obligations of the Authority. 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, i.e., serial bonds and term bonds.
- **Variable Interest Rate Bonds**. Bonds that bear interest at a variable or floating rate, adjusted at specified intervals (daily, weekly, or monthly) according to a specific index.
- **Capital Appreciation Bonds**. Bonds that are structured where interest on principal accrues and compounds until maturity. At maturity the full amount of the principal and all interest accrued is repaid.

B. Short-Term Debt

The Authority may issue short-term debt, from time to time as needed to fund projects for the Higher Educational Institutions during their construction phase. Such debt shall be authorized by resolution of the Authority. Short-term debt may be used for the following reasons:

- To fund projects with an average useful life of ten years or less; and
- To fund projects during their construction phase

Short-term debt is issued during the project's construction period and is 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 capital project expenditures during construction in anticipation of permanent financing through the issuance of long-term debt.
- **Commercial Paper (CP)** – CP is a BAN that may be issued with a term of up to 270 days; and at maturity may be reissued to a future maturity date. It can be issued incrementally as funds are needed.
- **Fixed Rate Notes** – Notes issued for a period of five years or less with an interest rate that is fixed.
- **Variable Rate Notes** – Notes issued for a period of five years or less, that bear interest at a variable or floating rate, adjusted at specified intervals (daily, weekly, or monthly) according to a specific index.
- **Revolving Credit Facility (RCF)** – A form of credit issued by a financial institution that provides the ability to draw on and repay during the term of the facility. The incremental drawdowns may bear interest until repaid.

Debt Structure

The Authority shall establish all terms and conditions relating to the issuance of bonds and shall invest all bond proceeds pursuant to the terms of the Authority's Second Program General Bond Resolution and the State's investment policy. Unless otherwise authorized by the Authority, the following shall serve as the Policy for determining structure:

A. Term

All capital projects financed through the issuance of debt shall be financed for a period not to exceed the useful life of the projects, and in consideration of the ability of the borrower to absorb the additional debt service expense within the debt affordability guidelines, but in no event shall the term of any bonds exceed thirty (30) years.

B. Capitalized Interest

Certain financings may require the use of capitalized interest from the issuance date until the borrower has beneficial use or occupancy of the financed project. Interest may be financed (capitalized) through a period permitted by federal law and the Authority's Second Program General Bond Resolution if it is determined that doing so is beneficial to the financing by the Authority.

C. Debt Service Structure

New money debt will be issued with a relatively net level debt service over the life of the debt. The Authority will avoid the use of bullet or balloon maturities; this does not include term bonds with mandatory sinking fund repayments or capital appreciation bonds.

D. Call Provisions

When issuing new debt, the structure may include a call provision no later than ten (10) 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 SGF in consultation with the Authority's financial advisor (the "Financial Advisor") with respect to the value of the call option.

E. Tender Offer/Option Bonds

The Authority may issue tender option bonds to retire all or a portion of certain outstanding bonds by making an offer to repurchase the bonds from its bondholders at a specified price during a set period of time. Note that from a bond holder's perspective, the only material difference between a called and tendered bond is that with the tender offer, the bond holder must elect to accept the repurchase offer. If the tender offer is not accepted, the bond's terms (including scheduled maturity date) remain unchanged.

F. Original Issuance Discount/Premium

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

G. Redemption Provisions

The Authority may redeem bonds in accordance with its redemption provisions in its Resolution.

- **Optional Redemption -** Bonds may be redeemed at the option of the Authority prior to their respective stated maturities.

- **Mandatory Redemption -** The Authority may issue bonds that are subject to mandatory redemption with a call provision that would require the Authority to redeem the bonds prior o their stated maturity date.

- **Sinking Fund Redemption -** The Authority may issue bonds that are subject to a sinking fund redemption that allows the Authority to call or redeem portions of its term bonds prior to their stated maturities with funds that have been set aside in a sinking fund for that purpose.

- **Extraordinary Redemption -** The Authority may issue bonds that are subject to an extraordinary redemption provision that gives the Authority the right to call or redeem its bonds due to an unusual, one-time event.

Refunding Outstanding Debt

The Authority may refund (refinance) outstanding bonds by issuing new bonds of which the proceeds are used to repay the refunded bonds. SGF with assistance from the Authority's Financial Advisor will have the responsibility to analyze outstanding bond issues for refunding opportunities. The Financial Advisor will conduct an analysis to identify all refunding candidates at least semiannually.

A. Refunding Considerations

- **Advance Refunding -** An advance refunding may be considered when the refunding results generate a present value savings of at least 4% per series of refunded bonds. Consideration will be given to escrow efficiency when reviewing refunding candidates. Current tax law only allows for taxable advance refundings.
- **Current Refunding -** A current refunding may be considered when the refunding results in (1) aggregate present value savings of at least 2% per series of refunded bonds or (2) present value savings per series that is equal to or greater than twice the cost of issuance allocable to the refunding series.
- **Refunding for Other Purposes** - Bonds may be refunded if necessary (1) due to a change in the use of a project that would require a change to the tax status of the bonds, (2) because the project is sold or no longer in service while still in its amortization period, or (3) because the **restrictive** covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.
- **Present Value Savings Calculation -** Unless otherwise agreed upon by SGF and the Financial Advisor, the present value savings shall be calculated for each series of refunding bonds (whether or not issued at the same time) by comparing the debt service on the refunding bonds to the remaining debt service on the bonds to be refunded thereby, present valued to the issue date of such refunding bonds at a discount rate equal to the arbitrage yield on such refunding bonds calculated (whether for tax-exempt bonds or taxable bonds) in the same manner as arbitrage yield is calculated for Federally tax-exempt bonds; provided, however, if a series of bonds is being issued for the purpose of refunding bonds to be refunded and for other purposes, the discount rate is equal to the arbitrage yield of the series of bonds. Percentage present value savings shall be expressed as a percentage of the par amount of such bonds to be refunded.
- **Escrow Efficiency -** Escrow efficiency is determined by dividing the present value savings by the perfect escrow cost. The perfect escrow cost for a net funded escrow, is the net present value of the escrow requirements (plus the additional cash deposit on the final requirement date) discounted at the arbitrage yield to the escrow purchase date. For a gross-funded escrow, the perfect escrow cost is the sum of the escrow requirements.

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 term of the originally issued debt allowing for an extension within the fiscal year of the original term. No backloading of debt shall be permitted.

C. Escrow Structuring

The Authority shall structure refunding escrows using legally permitted securities deemed to be prudent under the circumstances and will seek to utilize the least costly securities unless considerations of risk, reliability and convenience dictate otherwise. The Authority shall take all actions as may be necessary or appropriate to effectuate the transactions contemplated by the Refunding Trust Agreements, including but not limited to the purchase of State and Local Government Series securities ("SLGS") directly from the US Treasury. 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 seek to optimize efficiency on refunding escrows and to avoid negative arbitrage in its refunding subject to Tenn. Code Ann. § 49-3-1205(6). Any positive arbitrage will be rebated in accordance with federal guidelines (see also "Federal Regulatory Compliance and Continuing Disclosure – A. Arbitrage").

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. A competitive sale is the Authority's preferred method of sale.

B. Negotiated

While the Authority prefers to sell its bonds through a competitive process, it recognizes there are situations when it is best to negotiate the sale of its bonds. An underwriting team will be selected and the underwriter's fees negotiated prior to the sale. See "Selection of Underwriting Team (Negotiated Transaction)." The Authority shall consider the following factors in determining whether to conduct a negotiated bond sale:

- The bond structure which may require a pre-marketing effort;
    - Fixed or variable rate bonds
    - Taxable or tax-exempt bonds
    - New money or refunding bonds
- Size of the bond issuance may limit the number of potential bidders;
- Market volatility is such that the Authority would be better served by flexibility in timing a sale;
- Credit strength; and/or
- Legal or disclosure issues make it advisable in marketing the bonds.

C. Private Placement

The Authority may consider to privately place its bonds in certain situations, such as:

- the small amount of bonds to be sold does not warrant public sale;
- the structure is complicated for a public debt issuance;
- the number of potential purchasers is limited; and/or
- the private placement results in a cost savings to the Board in comparison to other methods of debt issuance.

Selection of Underwriting Team (Negotiated Transaction)

The primary role of the underwriter and underwriting team in a negotiated bond sale is to market the Authority's bonds to investors. Underwriters often provide ideas and suggestions with respect to structure, timing, and marketing process for the bonds being sold. The underwriters also work with the Authority's Financial Advisor and financing team in the bond rating process. The roles of the underwriter and the Financial Advisor are separate, adversarial roles that cannot be provided by the same party. 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 the Authority's bonds to be sold. The underwriter must clarify its primary role as a purchaser of securities in an arm's-length negotiation 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 bond 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 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 transaction;
- Financing and marketing ideas presented; and
- Competitive underwriting fees.

B. Co-Manager

Co-managers may be selected based on the same criteria as for the senior manager. The number of co-managers appointed to a specific transaction may be dependent upon the transaction size 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 its bond sales 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 included in the transaction, the Secretary or Assistant Secretary of the Authority, at his or her discretion, may appoint new members to the selling group as needed.

D. Underwriter's Counsel

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

Credit Quality

The Authority will seek to achieve the highest bond ratings possible, consistent with the Authority's financing objectives. If the Authority's ratings are downgraded, the Authority will immediately review its capital funding and debt strategy and take necessary steps within its authority to avoid additional downgrades and restore its rating. If the downgrade is a result of a criteria change, SGF will work with the credit rating agencies to understand the implications of the criteria and provide a summary to the Board.

SGF will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the Authority's debt. SGF will schedule rating agency calls and/or visits prior to the issuance of Tennessee State School Bond Authority debt.

SGF will provide the rating agencies with periodic updates of the general financial condition of the Authority. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The

Authority, together with the Financial Advisor, shall prepare presentations to the rating agencies to assist credit analysts in making an informed decision.

The Authority through SGF will engage the relevant rating agencies in advance, in the event that the Authority decides to move forward with a plan of finance that includes variable rate debt, new commercial paper programs or the use of derivatives.

The Authority shall apply for ratings from at least two of the of the four credit rating agencies. The Authority shall fully review the contract with the rating agencies and receive an engagement letter with each respective agency prior to submitting documentation for the rating.

Credit Enhancements

The Authority may consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. The Authority may determine that a credit enhancement is necessary to sell debt in the capital market. In other cases, there may be a benefit to securing a credit enhancement; however, cost savings would need to be demonstrated. The Authority may consider the following enhancements while evaluating the cost and benefit of such enhancements:

A. Bond Insurance

The Authority may purchase bond insurance when it is deemed to be prudent and advantageous by the Authority. The primary consideration shall be based on whether the insurance would be less costly than the present value of the difference between the interest cost on insured bonds versus uninsured bonds. For competitive sales, the purchaser of the bonds may be allowed to determine whether bond insurance will be used. The purchaser will include the cost of the bond insurance (to be paid by the purchaser) in its bid for 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 with terms and conditions governing the guarantee that is satisfactory to the Authority.

B. Letters of Credit

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

C. Liquidity

For variable rate debt that requires a liquidity facility to mitigate remarketing risk, the Authority will evaluate:

- The cost of alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and lines of credit, in comparison to the cost of the inability to issue debt in an illiquid market;
- Whether the facility needs to be diversified among liquidity providers to limit credit exposure to any individual liquidity provider;
- All cost components attributed to the liquidity facility, including commitment fees, standby fees, draw fees, and interest expense on amounts drawn on the facility; and
- A comparative analysis and evaluation of the cost of external liquidity providers compared to the cost for self-liquidity.

The winning bid will be awarded to the bank or financial institution with the highest credit quality that provides a proposal with the lowest cost 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

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

A. Private Business Use

Private business use of a project or facility financed with tax-exempt bonds may cause the interest on the tax-exempt bonds to be taxable to the owner of the bonds.

B. Default Risk

Payment (monetary) default risk – the risk that debt service payments due from the borrowers are not all received by the due date.

Technical default risk – the risk that the Authority fails to comply with the covenants or conditions (non-financial terms) of its debt obligations.

C. Liquidity Risk

The risk that an illiquid capital market would impede the Authority's ability to issue or remarket debt along with the risk of having to pay a higher interest rate to the liquidity provider in the event of a failed remarketing of short-term debt.

D. Interest Rate Risk

The risk that market interest rates change based on conditions which are outside the control of the Authority. Debt with variable rates could be subject to interest rate volatility and based on market conditions rates could be higher than estimated. Debt that includes a requirement to be refinanced could be subject to higher interest rates in the future resulting in higher interest costs.

E. Rollover Risk

The risk of refinancing a debt with the rate of interest on the new debt being greater than the original rate of interest.

F. Market Risk

Risk that may arise due to changes in the municipal or other financial markets, geopolitical events, or recession that could result in the inability to access the financial markets or borrowing in financial markets that could result in higher than expected interest rates.

Transparency

The Authority shall comply with the Tennessee Open Meetings Act and provide adequate notice of a public meeting. The Authority shall specify on the agenda any matters related to debt issuance that are to be considered. All costs related to the debt issuance, recurring and non-recurring (including bond interest and costs of issuance) shall be disclosed in a timely manner. Additionally, in accordance with the Authority's Continuing Disclosure Undertaking (CDU), the Authority will provide certain financial information and operating data by specified dates and provide notice of certain enumerated events with respect to the bonds, pursuant to continuing disclosure requirements of the U.S. Securities and Exchange Commission (SEC) 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 the sale;

- Filing the Debt Report with the Authority not later than forty-five days following the issuance or execution of a debt obligation, with a copy filed with the Division of Local Government Finance (LGF) pursuant to Tenn. Code Ann. § 9-21-134; and
- Electronically submitting information necessary to satisfy the Authority's continuing disclosure requirements for the bonds through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website in a timely manner (see also "Federal Regulatory Compliance and Continuing Disclosure").

Professional Services

The Authority requires all professionals engaged in assisting in the Authority's debt issuance transactions to clearly disclose all compensation and consideration received related to services provided to include "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 the Attorney General and Reporter for the State of Tennessee which serves as counsel to the Authority or of the Office of General Counsel, Office of the Comptroller of the Treasury, that serves as counsel to SGF regarding Authority matters.

B. Bond Counsel

Bond Counsel shall be engaged through SGF and serve and assist the Authority in all matters related to its debt issues under a written agreement.

C. Financial Advisor

The Financial Advisor shall be engaged through SGF to serve and assist the Authority on financial matters under a written contract. 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. The Financial Advisor shall be a registered municipal advisor with the Municipal Securities Rulemaking Board (MSRB).

D. Trustee/Refunding Trustee

The Trustee is appointed under the Second Program General Bond Resolution of the Authority. The Trustee will be a bank, trust company, or national banking association that provides Paying Agent and Registrar services. The Trustee will also serve as the Refunding Trustee for the Authority's refunded bonds as appointed under the Second Program General Bond Resolution.

E. Dealer or Remarketing Agent

The Authority may enter into a Dealer Agreement with the appointed CP dealer or a Remarketing Agent Agreement associated with variable rate debt offerings. The Dealer and/or Remarketing Agent agrees to offer and sell the CP or other variable rate debt, on behalf of the Authority, to investors and other entities and individuals that purchase CP.

F. Issuing and Paying Agent

The Authority shall appoint 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/Liquidity Agreement with an appointed provider, if deemed necessary or advisable, for the CP. The provider shall be a bank, lending institution, or the Tennessee

Consolidated Retirement System (TCRS) 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 RFP process prior to the issuance of refunding bonds, if required. The Verification Agent shall verify the cash flow sufficiency to the call date of the escrowed securities to pay the principal and interest due on the refunded bonds.

I. Escrow Bidding Agent

The Escrow Bidding Agent will be selected through a RFP 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 to the Authority as to completion of requirements.

Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the Authority will 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. This disclosure will include such information that is reasonably sufficient to allow the Authority to understand 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

In planning for the sale of bonds, the procedures outlined below will be followed:

- Identify projects selected to be financed with long-term debt, and check with the Institutions to ensure the projects chose are ready to go to long-term debt and see if they want to include any other projects.
- Prior to submitting a bond resolution for approval, the Director of SGF (the "Director"), with the assistance of the Financial Advisor, will present to the Authority's staff information concerning the purpose of the financing, the proposed structure of the financing, the source of payment proposed to be pledged to the financing, the proposed method of sale for the financing, all members of the proposed financing team, and an estimate of all the costs associated with the financing;
- The Director (with the assistance of SGF staff), Bond Counsel, and Financial Advisor, along with 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; and
- 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.

B. Preparing for Bond Closing

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

- The Director (with the assistance of SGF staff), Bond Counsel, and Financial Advisor, along with other members of the financing team, will prepare the offering document (i.e., 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;
- Authority staff with assistance from the Financial Advisor will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' 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 credits, 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 Debt Report outlining costs related to the issuance and other information set forth in Tenn. Code Ann. § 9-21-151, present the report at the next meeting of the Authority and file a copy with 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 and reporting all arbitrage earnings associated with the financing and submitting any tax liability that may be owed to the Internal Revenue Service (IRS).
- 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 SGF staff) will, no less than annually, request and receive confirmation from the borrowers that there has been no change in use of tax-exempt financed facilities.

For additional information on planning and preparing for a bond sale, see the Standard Operating Procedure Bond Issuance and Checklist.

C. Continuing Administration

- SGF staff will prepare billings in a timely manner to send to the borrowers to ensure payment in a timely manner.
- SGF staff will send moneys collected from borrowers for payment of debt service to either the Depository Trust Company (DTC) or the associated Trustee/Paying Agent to pay the bondholders the debt service due, or in the case of term bonds, place the funds in a sinking fund until the bond matures.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

The Authority, through SGF, will comply with arbitrage requirements on invested tax-exempt bond funds consistent with representations made in the relevant Tax Certificate. 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 its 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 Tenn. Code Ann. § 49-3-1205(6), 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.

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) shall be 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 in such amounts that will be sufficient, together with any cash on deposit, to redeem the bonds to be refunded and to pay all interest due on the bonds to be refunded.

C. Disclosure

The Authority will disclose the State's and the Authority's audited Annual Comprehensive Financial Report on the EMMA website as well as certain financial information and operating data required by the CDUs for the outstanding bonds no later than January 31st of each year for the Higher Educational Second Program Bonds or February 25th for the QSCB Program. The Authority will provide timely notice of any failure to provide required annual financial information. The Authority, with respect to borrowers under the QSCB Program (the "QSCB Borrowers"), will provide by no later than one year after the end of each respective fiscal year:

- the updated version of the state-shared taxes contained in the Official Statement with respect to the QSCB Borrowers, and
- Audited Financial Statements, if available, or the Unaudited Financial Statements of the QSCB Borrowers.

The Authority will also, in accordance with the CDUs, disclose on the EMMA website within ten business days after the occurrence of the following events relating to the bonds to which the CDUs 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 IRS 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
- 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
- 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 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 intended to provide direction regarding the future use and execution of debt. The Authority maintains the right to modify these guidelines in a manner similar to the original adoption of the Policy.

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

Adoption of the Policy

1. A public hearing on the Policy was held on the following date: November 14, 2011.
2. The Authority adopted this Policy on December 8, 2011, effective December 8, 2011.
3. The Authority amended this Policy on February 4, 2013, effective February 4, 2013.
4. The Authority amended this Policy on March 10, 2016, effective March 10, 2016.
5. The Authority amended this Policy on June 9, 2016, effective June 9, 2016.
6. The Authority amended this Policy on May 11, 2017, effective May 11, 2017.
7. The Authority amended this Policy on June 27, 2019, effective June 27, 2019.
8. The Authority amended this Policy on July 22, 2021, effective July 22, 2021
9. The Authority amended this Policy on July 22, 2024, effective July 22, 2024
10. The Authority amended this Policy on June 23, 2025, effective June 23, 2025

Secretary
Tennessee State School Bond Authority

APPENDIX A

Annual Review

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

November 21, 2014
January 20, 2016
July 20, 2020
July 26, 2022
June 27, 2023