

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY**  
**March 21, 2017**

The Tennessee Local Development Authority (the "Authority" or "TLDA") met on Tuesday, March 21, 2017, at 2:15 p.m. in the State Capitol, room G3, Nashville, Tennessee. The Honorable Tre Hargett, Secretary of State, was present and presided over the meeting.

The following members were also present:

The Honorable Justin Wilson, Comptroller of the Treasury  
 Brian Derrick, Proxy for the Honorable David Lillard, State Treasurer  
 Angela Scott, Proxy for Commissioner Larry Martin, Department of Finance and Administration

The following member participated telephonically as authorized by Tennessee Code Annotated Section 8-44-108 and as posted in the meeting notice:

Mr. Pat Wolfe, Senate Appointee

The following members were absent:

The Honorable Bill Haslam, Governor  
 Dr. Kenneth Moore, House Appointee

Recognizing a physical quorum present, Mr. Hargett called the meeting to order and asked Mr. Mark Graubner, Program Accounting Analyst in the Office of State and Local Finance ("OSLF") to call the roll:

Mr. Hargett—Present  
 Mr. Derrick— Present  
 Ms. Scott— Present  
 Mr. Wolfe— Present  
 Mr. Wilson— Present

Mr. Hargett asked for a motion to approve the minutes of the February 10, 2017, TLDA meeting. Mr. Wilson made a motion to approve the minutes, and Ms. Scott seconded the motion. Mr. Graubner called the roll:

Mr. Hargett—Yes  
 Mr. Derrick—Yes  
 Ms. Scott—Yes  
 Mr. Wolfe—Yes  
 Mr. Wilson—Yes

The minutes were unanimously approved.

Mr. Hargett asked Mr. Sherwin Smith, Director of the Tennessee Department of Environment and Conservation ("TDEC") State Revolving Fund ("SRF") program to present the unobligated balance report for the Clean Water SRF and the Clean Water SRF loan requests. Mr. Smith introduced Ms. Felicia Freeman, Senior Engineer with TDEC and stated she would present the report and the requests. Ms. Freeman first presented the unobligated fund balance report. She stated that the balance was \$161,981,714 as of November 29, 2016, and since that time the balance had increased a total of \$12,494,358 due to reductions to previous loans approved. Upon approval of the loan requests to be presented, the funds available for loan obligations would decrease to \$163,076,072.

Mr. Wilson asked what the demand was for the \$163 million in unobligated funds. Mr. Smith stated that TDEC was working with several potential borrowers with projects to which the remaining unobligated balance could be committed. Mr. Hargett asked what the time frame on committing the balance was. Mr. Smith stated that TDEC was currently working with a few cities, including Franklin, Memphis, and Chattanooga, each with large project requests that ranged from approximately \$50 to \$100 million. Mr. Smith stated that TDEC was working with several other potential borrowers with smaller project requests as well. Mr. Wilson asked if the amount requested in the governor's budget for state dollars was sufficient to meet the federal matching requirements. Mr. Smith stated that TDEC had requested to increase its state appropriations in the governor's budget. Mr. Smith stated that the amount of Tennessee's federal grant allotment was uncertain at this time, but that the state appropriations requested of \$5.7 million would provide the match for nearly \$30 million in federal grants.

Mr. Hargett asked Ms. Freeman to present the loan requests for Clean Water SRF:

- Trenton (CW4 2017-386)—Requesting \$3,876,158 (\$3,604,827 (93%) loan; \$271,331 (7%) principal forgiveness) for wastewater treatment plant (“WWTP”) upgrades (construction of a 1.6 million gallons per day (“MGD”) sequencing batch reactor (“SBR”), mechanical bar screen with grit removal and chlorine contact tank, and the conversion of the existing lagoons to aerobic sludge digesters) and Inflow/Infiltration (“I/I”) correction (rehabilitation of collection system to include flow monitoring, smoke testing, and closed circuit television system monitoring (“CCTVing”); rehabilitating the sewer lines by methods of pipe bursting, cured-in-place piping and/or replacement, and renovating the pump stations; recommended interest rate of 0.70% based on the Ability to Pay Index (ATPI).
- Trenton (SRF 2017-392)—Requesting \$6,123,842 for WWTP upgrades (construction of a 1.6 MGD SBR, mechanical bar screen with grit removal and chlorine contact tank, and the conversion of the existing lagoons to aerobic sludge digesters) and I/I correction (rehabilitation of collection system to include flow monitoring, smoke testing, and CCTVing; rehabilitating the sewer lines by methods of pipe bursting, cured-in-place piping and/or replacement, and renovating the pump stations; recommended interest rate of 0.70% based on the ATPI.
- Jackson Energy Authority (CW4 2017-386)—Requesting \$1,400,000 for improvements to the Miller Avenue WWTP; recommended interest rate of 1.55% based on ATPI.

Mr. Smith stated that the Jackson Energy request would provide additional funding for a previously approved project loan, and that the additional funding was necessitated by bid-overruns.

Mr. Wilson made a motion to approve the loans, and Ms. Scott seconded the motion. Mr. Graubner called the roll:

Mr. Hargett—Yes  
 Mr. Derrick—Yes  
 Ms. Scott—Yes  
 Mr. Wolfe—Yes  
 Mr. Wilson—Yes

The motion was unanimously approved.

Mr. Hargett then asked Ms. Freeman to present the unobligated balance report for the Drinking Water SRF and the Drinking Water SRF loan requests. Ms. Freeman first presented the unobligated fund balance report. She stated that the balance was \$47,744,186 as of February 10, 2017, and since that time the balance had increased by \$155,288 due to reductions to previous loans approved. Upon approval of the loan requests to be presented, the funds available for loan obligations would decrease to \$45,025,114.

Mr. Wilson asked if there was demand for the approximately \$45 million in unobligated funds. Mr. Smith stated that there was demand, but, in general, requests for loans from the Drinking Water SRF tended to be much smaller dollar amounts than the requests for loans from the Clean Water SRF. However, Mr. Smith stated that there were a

few potential Drinking Water borrowers who had larger project loan requests, the largest of which was Oak Ridge who had applied for about \$40 million. Mr. Wilson asked if the amount requested in the governor's budget for state dollars was sufficient to meet the federal matching requirements. Mr. Smith explained that the state appropriations request he had previously described would be available to match both Clean Water and Drinking Water federal grants.

Mr. Hargett asked if there were any other questions from the members, and hearing none, he asked Ms. Freeman to present the Drinking Water SRF loan requests. Ms. Freeman described the requests:

- Big Creek UD (DW2 2017-188)—Requesting \$299,235 (\$239,388 (80%) loan; \$59,847 (20%) principal forgiveness) for a new clearwell and backwash pump station; recommended interest rate of 0.08% based on the ATPI.
- Big Creek UD (DWF 2017-189)—Requesting \$200,765 for a new clearwell and backwash pump station; recommended interest rate of 0.08% based on the ATPI.
- Brighton (DG3 2016-180)—Requesting \$374,360 (\$74,872 (20%) loan; \$299,488 (80%) principal forgiveness) for "green" water meter replacements (replace approximately 1,400, meters with automatic meter readers; recommended interest rate of 0.58% based on the ATPI.
- Erwin (DG5 2017-186)—Requesting \$1,500,000 (\$1,125,000 (75%) loan; \$375,000 (25%) principal forgiveness) for "green" distribution system improvements (install advanced metering infrastructure ("AMI") meters and replace old/undersized waterlines); recommended interest rate of 1.24% based on the ATPI.
- Erwin (DWF 2017-187)—Requesting \$500,000 for "green" distribution system improvements – (Install AMI meters and replace old/undersized waterlines); recommended interest rate of 1.24% based on the ATPI.

Mr. Hargett asked Mr. Smith to explain why certain projects were split into two loan requests. Mr. Smith stated that in some instances, a small portion of a federal grant allotment was available to fund loan requests. TDEC would recommend one loan request to use the remaining grant allotment, and the second loan request would be recommended using "fund dollars" (derived from principal and interest repayments from other loans) to provide for the remainder of the funds requested by the applicant. Since there was principal forgiveness associated with the federal grant but not for the fund dollars, the requests had to be separated.

Mr. Hargett stated that a memo regarding the loan request for the city of Brighton (the "City") was included in the materials provided to the Authority members prior to the meeting. He asked Mr. Smith to briefly outline the memo and explain why TDEC was recommending that the City would receive 80% principal forgiveness. Mr. Smith stated that the Environmental Protection Agency ("EPA") was encouraging TDEC to spend its remaining federal grant allotment quickly. Mr. Smith reminded the members that in the Drinking Water program, TDEC received a set-aside from the federal grant for administrative expenses, and explained that the remaining grant dollars were a part of this set-aside. In an effort to spend the remaining amount quickly, TDEC asked the EPA if the set-aside funds could be utilized to provide funding for a loan. The EPA confirmed that this was an allowable use of the remaining set-aside funds. Mr. Smith stated that TDEC had already been working with the City on its loan request, but that the City was going to decline the funding because they could not sustain a rate increase large enough to be able to afford the loan without principal forgiveness. Mr. Smith stated that the City's loan request was approximately the same amount as the available set-aside funds. This similarity, coupled with the fact that the project was both much needed and was an energy-saving "green" project, along with the opportunity it offered to help a less affluent community, led TDEC to recommend funding the request from the City with 20% loan and 80% principal forgiveness. Mr. Smith stated that even with the principal forgiveness at this level, the City was required to raise its rates 10% in order to demonstrate its ability to repay the loan. (The City is currently under the oversight of the Water and Wastewater Financing Board for financial distress, as was noted in the members' meeting materials.)

Mr. Hargett made a motion to approve the loans, and Mr. Wilson seconded the motion. Mr. Graubner called the roll:

Mr. Hargett—Yes  
 Mr. Derrick—Yes  
 Ms. Scott—Yes  
 Mr. Wolfe—Yes  
 Mr. Wilson—Yes

The motion was unanimously approved.

Mr. Hargett stated that the next item was consideration of two requests from the Tullahoma Utilities Authority (“TUA”):

- A request to assume the city of Tullahoma’s State Revolving Fund Loan obligation (CW0 12-297)
- A request to issue Water and Sewer Revenue Bonds in an amount not to exceed \$1,700,000 subordinate to its SRF Loan (CW0 12-197)

Mr. Hargett asked Ms. Sandra Thompson, Director of OSLF, to describe the requests.

Ms. Thompson stated that the request from the TUA to assume the city of Tullahoma’s State Revolving Fund Loan obligation (CW0 12-297) had been reviewed by OSLF, and she said that TUA appeared to be in compliance with the SRF Policy and Guidance for Borrowers. Ms. Thompson stated the following:

- Private Chapter 54 of the Private Acts of 2016 permitted the City of Tullahoma to create Tullahoma Utilities Authority (TUA) – under the Act, TUA would be required to defease, retire, or assume the outstanding debt of the City related to utilities by July 31, 2018
- SRF loan CW0 12-297 was originally approved by the TLDA on March 13, 2012 for \$4 million with an additional \$1 million in principal forgiveness; the current balance of the loan is \$3,579,096
- Tullahoma is current on its loan payments
- TUA passed a resolution on February 23, 2017, pledging revenues and agreeing to levy fees, rates and charges sufficient to pay principal and interest on the loan
- TUA will fund a security deposit of \$223,980

Ms. Thompson stated that based on the OSLF analysis, the TUA appears to have the capacity to assume the city of Tullahoma’s SRF loan.

Mr. Hargett stated that without objection both requests would be considered at the same time. Hearing none, Ms. Thompson described the second request from the TUA. Ms.

Ms. Thompson stated that the request of the TUA to issue Water and Sewer Revenue Bonds in an amount not to exceed \$1,700,000 subordinate to its SRF Loan (CW0 12-197) had also been reviewed by OSLF. She said that TUA appeared to be in compliance with the SRF Policy and Guidance for Borrowers. Ms. Thompson stated the following:

- TUA intends to issue bonds in an amount not to exceed \$1.7 million to refund the City’s utility revenue debt (as required by the Private Act)
- If TUA’s request to assume the SRF loan is approved, they are required under the loan agreement to seek approval from the TLDA to issue additional debt. TUA must:
  - provide the annual audit for the most recent fiscal year
  - demonstrate that they have met the requirement for 1.20X debt service coverage to net revenues for the most recent fiscal year

- show that the net revenues of the system for the next three fiscal years will be sufficient to provide the 1.20X coverage
- TUA submitted the audited FY 2016 financial statements for Tullahoma Utilities Board
- FY 2017 is first year of operations for TUA, but Tullahoma Utilities Board's debt service coverage to net revenues for FY 2016 was 2.31X
- Based on its forecast of future years net revenues, TUA projects that it will meet the debt service coverage requirement with estimated debt service coverage to net revenues ranging from 3.21X to 4.61X for fiscal years 2017-2020

Ms. Thompson stated that based on the OSLF analysis, the TUA appeared to meet the requirements for the approval to issue the debt subordinate to the SRF loan.

Mr. Hargett made a motion to approve the requests, and Mr. Wilson seconded the motion. Mr. Hargett called for a roll-call vote. Mr. Graubner called the roll:

Mr. Hargett—Yes  
 Mr. Derrick—Yes  
 Ms. Scott—Yes  
 Mr. Wolfe—Yes  
 Mr. Wilson—Yes

The motion was unanimously approved.

Hearing no other business, Mr. Wilson made a motion to adjourn the meeting, and Mr. Derrick seconded the motion. Mr. Hargett called for a roll-call vote. Mr. Graubner called the roll:

Mr. Hargett—Yes  
 Mr. Derrick—Yes  
 Ms. Scott—Yes  
 Mr. Wolfe—Yes  
 Mr. Wilson—Yes

The meeting was adjourned.

Approved on this 6<sup>th</sup> day of April, 2017.

Respectfully submitted,

Sandra Thompson  
 Assistant Secretary