

# **TENNESSEE LOCAL DEVELOPMENT AUTHORITY**

**March 13, 2018**

The Tennessee Local Development Authority (the Authority or TLDA) met on Tuesday, March 13, 2018, at 10:00 a.m. in the State Capitol, Executive Conference Room, 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  
 The Honorable David Lillard, State Treasurer  
 Angela Scott, Proxy for Commissioner Larry Martin, Department of Finance and Administration  
 Dr. Kenneth Moore, House Appointee

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 member was absent:

The Honorable Bill Haslam, Governor

Recognizing a physical quorum present, Mr. Hargett called the meeting to order and asked Ms. Sandi Thompson, Director of the Office of State and Local Finance (OSLF) to call the roll.

Ms. Scott—Present  
 Mr. Wilson—Present  
 Mr. Hargett—Present  
 Mr. Lillard—Present  
 Dr. Moore—Present  
 Mr. Wolfe—Present

Mr. Hargett asked for a motion to approve the minutes of the January 25, 2018, TLDA meeting. Mr. Wilson made a motion to approve the minutes, and Mr. Lillard seconded the motion. Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The minutes were unanimously approved.

Mr. Hargett asked Ms. Thompson to present the requests from the Hallsdale-Powell Utility District (HPUD). Ms. Thompson stated that HPUD is asking the TLDA to waive the enforcement of requirement 7(m) in its loan agreements in order to issue additional debt. She stated that section 7(m) of the loan agreements says that no additional debt payable from the revenues of the system can be issued or entered into unless the annual audit has been delivered within six months of the most recent fiscal year end. The audit report was due on September 30, 2017 but was filed on November 1, 2017. Mr. Hargett stated that there had been previous discussion on the issue of the late filing of audit reports and stated that there should be some additional clarification. He noted that there was also a waiver request from Minor Hill on the agenda. He recognized Mr. Jerry Durham, Assistant Director of the

Division of Local Government Audit (LGA). Mr. Hargett stated that it was his understanding that LGA did not have the capacity to grant extensions of a contracted filing deadline. Mr. Durham said that LGA did not have that capacity. Mr. Hargett stated that when a local government has requested an “extension” from LGA that LGA has acknowledged the request as notification of late filing, but that acknowledgement has been misinterpreted by some as permission to extend a contracted filing deadline. Mr. Hargett said that LGA has revised their acknowledgement letter. Mr. Durham explained that the original acknowledgement letter did state that LGA did not have the ability to extend contracted filing deadlines, but the nature of word “extension” may have contributed to an assumption by local governments that such permission was inherently granted. Mr. Durham stated that LGA has revised its acknowledgement letter and the word “extension” has been replaced with “delinquent filing”. A copy of the letter was distributed to each Authority member. Mr. Durham asked if it were the Authority’s desire for LGA to be extremely strict with local government SRF borrowers about meeting the filing deadline. Mr. Hargett responded affirmatively noting that he was speaking only for himself. Mr. Durham stated that he would communicate to borrowers’ CPA firms that no waiver for late filing would be granted unless approved by the TLDA. Mr. Lillard asked about the primary reasons for delinquent audits. Mr. Durham responded that most often local governments are small and do not have adequate accounting staff. He stated that Chapel Hill, for example, had notified LGA that it would file late because it had lost its bookkeeper and had to obtain outside accounting assistance. Another reason appears to be an issue with accounting firms because they may have taken on more work than they can complete in a timely manner.

Mr. Hargett then recognized Mr. Alex Buchanan, legal counsel for HPUD, and asked if he wanted to make a statement regarding the waiver request. He did not have any comments. Mr. Hargett made a motion to approve the request, and Mr. Lillard seconded the motion. Mr. Hargett asked if there were any questions. Mr. Lillard asked why HPUD’s audit was delinquent. Mr. Buchanan stated that there was a disagreement between HPUD and the auditor about the information in the report’s management discussion and analysis and that HPUD thought that they had been granted an extension from LGA. He said that HPUD has historically filed its audits by the “extension” date in years where an “extension” had been requested. Mr. Lillard asked about how the proposed bonds would be marketed. Mr. Buchanan responded that the bonds would be sold publicly. Mr. Lillard asked if the audit would be filed before the bonds are issued. Mr. Buchanan clarified that the audit was already filed on November 1, 2017. Mr. Wilson asked Mr. Buchanan about the purpose of the refunding. Mr. Buchanan responded that the refunding would save HPUD approximately \$3.8 million. Mr. Hargett asked Mr. Buchanan if he knew the identity of the CPA firm. He responded he thought its name was Mitchell. Mr. Hargett stated that a motion had been made to approve the waiver and asked Ms. Thompson to call the roll:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The motion was unanimously approved.

Mr. Hargett stated that the next item was a request from HPUD to issue refunding bonds in an amount not to exceed \$6,760,000 senior to its SRF loans and asked Ms. Thompson to present the item. She stated that the OSLF has conducted an analysis to ensure that HPUD meet the TLDA’s criteria to issue additional debt. She said that these bonds would be issued in conjunction with bonds the TLDA previously approved. She stated that the proceeds of the Series 2018 Refunding Bonds will be used to refund HPUD’s 2005, 2007, and 2011 Series Rural Development loans. She noted that the Series 2006 and Series 2008 which the TLDA had already given its consent would also be included in the Series 2018 Refunding which would produced an estimated savings of \$3.8 million. The District is proposing to issue the bonds on parity with debt in its master resolution which means that the Bonds would be senior to its SRF loans. The district anticipates a double-A rating from S&P. She stated that based on the OSLF analysis that the District should have sufficient cash and revenues to meet its debt service obligations, and the District appeared to meet the TLDA’s requirements to issue additional debt except for timely filing its audit report.

Mr. Hargett made a motion to approve the request, and Dr. Moore seconded the motion. Mr. Wilson asked if the Refunding would extend the maturity for any of the bonds. Ms. Thompson said that it would not.

Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The motion was unanimously approved.

Mr. Lillard commented that according to the U.S. Securities and Exchange Commission (SEC), there was tremendous opacity or lack of available information in the bond market upon which bondholders would rely upon to buy or sell bonds. He stated that this lack of available information is a great stress factor for the municipal bond market and the cumulative effect of non-compliance over time is a broader concern, and as an issuer, the TLDA has an interest in making sure that its Borrowers are in compliance with filing. He stated that he agrees with Mr. Hargett's previous sentiment regarding a desire the strictly enforce audit filing compliance. He stated that non-compliance could be a serious issue for Tennessee issuers including the TLDA and others, and enforcement of compliance is necessary and important in that regard. He stated that enforcement compliance is a priority of the SEC, and the SEC may start making examples issuers. Mr. Buchanan stated that the continuing disclosure contract allowed HPUD until the calendar year end to file its audit and that deadline was separate from the State's requirement. He Lillard acknowledged that Mr. Buchanan was correct in that regard but said that the TLDA has a different standard and a responsibility to enforcement that standard which would help combat the overall problem of opacity in the municipal market place.

Ms. Thompson presented the next two items on the agenda from the Minor Hill Utility District (the "District"). Ms. Thompson stated that the first request was to waive the enforcement of requirement 7(m) set forth in its loan agreements requiring the audit due on December 31, 2016, be filed by June 30, 2017. She stated that the audit report was filed on August 3, 2017, and according the District's request letter to the TLDA, the reason for the delinquent filing was because its auditor failed to timely prepare the audited financial statements. The letter stated that the District had since terminated its engagement with that firm and engaged a new auditor. Mr. Hargett made a motion to approve the request, and Mr. Lillard seconded the motion.

Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The motion was unanimously approved.

Mr. Hargett asked Ms. Thompson to present the District's request to issue a USDA Waterworks Revenue Bond in an amount not to exceed \$335,000 subordinate to its SRF loans. Ms. Thompson stated that the District submitted its request to issue additional debt to the TLDA on February 14, 2017, and that per the loan agreement, TLDA approval is required even though the proposed debt will be subordinate to its SRF loans. She stated that the proceeds will be used for water supply improvements. She stated the OSLF had conducted a review and determined that the District appears to meet the criteria set forth in the TLDA's policy and guidance to issue additional debt, except for

the timely filing of its audit report, and will have sufficient cash and revenues to meet its obligations. Mr. Hargett made a motion to approve the request, and Dr. Moore seconded the motion.

Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The motion was unanimously approved.

Mr. Hargett then asked Ms. Felicia Freeman, Senior Engineer with the Tennessee Department of Environment and Conservation (TDEC), to present the requests for the Clean Water State Revolving Fund (SRF) loans. She first presented the unobligated fund balance. She stated the balance was \$61,189,065 as of January 25, 2018. The balance increased a total of \$8,125,279 from early payoffs and reductions to previous loans. Upon approval of the loan requests to be presented, the funds available for loan obligations would decrease to \$46,450,594. She then described the loan requests:

- Chapel Hill (CW6 2018-399)—Requesting \$788,750 (\$709,875 (90%) loan; \$78,875 (10%) principal forgiveness) for Collection System Replacement (Construction of an 8-inch diameter force main from Morning Side Pump Station to the Water and Wastewater Treatment Plant (WWTP) to replace existing 6-inch force main); recommended interest rate of 1.04% based on the Ability to Pay Index (ATPI).
- Cleveland (SRF 2018-417)—Requesting \$10,000,000 Inflow/Infiltration (I/I) correction (Sewer system evaluation survey (SSES) of approximately 107,000 linear feet (LF) of sewer lines in Sewer Basin 64-14A and the rehabilitation of sewer lines and manholes by method of cured-in-place pipe (CIPP), trenchless, and manholes lining in Sewer Basin 10A-8); recommended interest rate of 1.58% based on the ATPI.
- Lewisburg (CW6 2017-389)—Requesting \$1,000,000 (\$900,000 (90%) loan; \$100,000 (10%) principal forgiveness) for WWTP improvements—advanced treatment (Construction of a chemical feed building); recommended interest rate of 1.05% based on the ATPI.
- Lewisburg (SRF 2017-390)—Requesting \$75,000 for WWTP improvements—advanced treatment (Construction of a chemical feed building); recommended interest rate of 1.05% based on the ATPI.
- Memphis (SRF 2018-409)—Requesting \$11,000,000 for T.E. Maxon WWTP headworks improvement project consisting of replacing equipment, structural and architectural modifications, and electrical and instrumentation improvements in the existing headworks building at the T.E. Maxon WWTP; recommended interest rate of 0.81% based on the ATPI.

Mr. Hargett made a motion to approve the loans, and Mr. Wilson seconded the motion.

Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The motion was unanimously approved.

Ms. Freeman then presented the requests for Drinking Water SRF loans. She first presented the unobligated fund balance. She stated the balance was \$57,892,996 as of January 25, 2018. The balance increased \$4,060,764 due to

loan decreases. Upon approval of the loan requests to be presented, the funds available for loan obligations would decrease to \$60,909,760. She then described the loan requests:

- Bell Buckle (DWF 2018-207)—Requesting \$294,000 (\$235,200 (80%) loan; \$58,800 (20%) principal forgiveness) for distribution system water main line replacement; recommended interest rate of 0.27% based on the ATPI.
- Erwin Utilities (DW6 2018-206)—Requesting \$750,000 (\$600,000 (80%) loan; \$150,000 (20%) principal forgiveness) for new water storage tank (Construction of a new 0.5-million-gallon water storage tank; recommended interest rate of 1.10% based on the ATPI.

Mr. Hargett made a motion to approve the loans, and Mr. Wilson seconded the motion.

Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The motion was unanimously approved.

Mr. Hargett asked Ms. Thompson to present the last item on the agenda. She stated that staff is requesting approval of an amendment to the TLDA SRF Policy and Guidance for Borrowers related to audit filing compliance. She stated that a new section had been added, and it is titled "Filing of Annual Audit Report". The purpose of this section is to clarify the filing requirement for utility districts, authorities, and municipal borrowers. Mr. Hargett made a motion to approve the request and Mr. Lillard seconded the motion. Mr. Lillard then stated that considering the earlier conversation at this meeting, the TLDA may want to defer the item for further discussion. Mr. Hargett concurred and withdrew his motion. Mr. Hargett stated that the item will be deferred to a future meeting.

Hearing no other business, Mr. Hargett made a motion to adjourn the meeting, and Mr. Wilson seconded the motion. Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Ms. Scott—Aye  
 Mr. Wilson—Aye  
 Mr. Hargett—Aye  
 Mr. Lillard—Aye  
 Dr. Moore—Aye

The meeting was adjourned.

Approved on this 16<sup>th</sup> day of May, 2018.

Respectfully submitted,

Sandra Thompson  
 Assistant Secretary



Delinquent Filing of Audit  
Report

**From:** CARS.DoNotReply@cot.tn.gov  
**Subject:** Notification of ~~Contract Extension Request~~ - Test-City  
**Date:** Tuesday, November 07, 2017 2:50:04 PM

We have received a notification that the original audit report due date of 12/31/2017 for the contract to audit accounts between Test-City and State of Tennessee - Department of Audit will not be met.

Based on this notification, the report will be filed on or before 2/28/2018. The reason for the extension is noted below:

delinquent filing

Test

delinquent filing

Although we are including a comment in our files regarding this ~~extension~~ notification, please note that there is no provision in the contract for filing reports more than six (6) months after the fiscal year end. Every effort should be made to submit audit reports within the six (6) month time frame.

receipt

delinquent filing notification

Please note that if this audit is subject to the Single Audit Act, the report must be filed within 9 months of the fiscal year end. Our acknowledgment of this ~~extension request~~ does not relieve you of any responsibilities related to the Single Audit Act. The State and or Federal grantor(s) would need to be contacted to determine what additional action is necessary.

Other interested parties should be notified of your delinquent filing, including, but not limited to, lenders, grantors, bond counsel, regulatory boards, etc.

(Add to TLDA Minutes of 3/13/2018)