

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY**  
**December 17, 2018**

The Tennessee Local Development Authority (the Authority or TLDA) met on Monday, December 17, 2018, at 1:30 p.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:

William Wood, Proxy for the Honorable Justin Wilson, Comptroller of the Treasury  
The Honorable David Lillard, State Treasurer  
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 included 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, TLDA Assistant Secretary and the Director of the Office of State and Local Finance (OSLF) to perform a roll-call:

Mr. Wolfe—Present  
Mr. Lillard—Present  
Mr. Hargett—Present  
Mr. Martin—Present  
Dr. Moore—Present  
Mr. Wood—Present

Mr. Hargett asked for a motion to approve the minutes of the November 26, 2018, TLDA meeting. Mr. Wood made a motion to approve the minutes, and Mr. Lillard seconded the motion. Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
Mr. Lillard— Aye  
Mr. Hargett— Aye  
Mr. Martin— Aye  
Dr. Moore— Aye  
Mr. Wood— Aye

The minutes were unanimously approved.

Mr. Hargett stated that the next item on the agenda was consideration of a request from the City of Loudon to issue Water and Sewer Revenue Bonds with an amount not to exceed \$8,600,000 on parity with its State Revolving Fund (SRF) loans. He asked Ms. Thompson to present the request. Ms. Thompson stated that the City is requesting to issue the revenue bonds on parity with its six outstanding SRF loan agreements. She stated that the OSLF had reviewed the request, and the City appears to meet the criteria set forth in the TLDA Policy and Guidance for Borrowers. Ms. Thompson reported that the analysis performed by the OSLF included a review of the City's

financial statements, debt service coverage, and its credit ratings. Furthermore, it was determined that the City has a history of timely repayment on current loans, has timely filed its audited financial statement, and its debt service coverage ratio meets or exceeds the required 1.2 times. Ms. Thompson directed the Authority to item number eight in the SLF analysis that was included in the meeting materials. She pointed out that the City's state-shared taxes totaled \$704,429, and that its maximum annual debt service total was \$1,330,644. She explained that although the City's indebtedness exceeds its state-shared taxes by \$626,215, the OSLF analysis indicates that it should have sufficient cash and revenues to meet its obligations. Therefore, staff recommends approval of this request. Mr. Hargett moved approval of the request, and Mr. Martin seconded the motion. Ms. Thompson performed a roll-call vote:

Mr. Wolfe—Aye  
 Mr. Lillard— Aye  
 Mr. Hargett— Aye  
 Mr. Martin— Aye  
 Dr. Moore— Aye  
 Mr. Wood— Aye

The motion was unanimously approved.

Mr. Hargett stated that the last item on the agenda was a presentation of the State Revolving Fund (SRF) priority ranking lists. He recognized Ms. Leslie Gillespie-Marthaler, Director of the SRF program for the Tennessee Department of Environment and Conservation (TDEC), to present the lists. Ms. Gillespie-Marthaler presented both the clean water and drinking water priority ranking lists and stated that the highlighted projects on the lists show some of the communities/sub-loan recipients that TDEC believed would be proceeding through the loan process. She continued by saying that as of November 26, 2018, the unobligated balance for clean water funds total \$87,316,922, and that the highlighted projects on clean water's priority ranking list total \$166,255,227. Ms. Gillespie-Marthaler explained that even though the highlighted portion of clean water projects exceeds the availability of unobligated funds, she was confident in TDEC's ability to draw down the remaining funds due to demand. She then reported that the pace for drinking water loans was not as strong with an unobligated funds balance of \$74,514,809, and only \$35,819,000 in projects expected to move forward with completion of the loan application process. She continued by saying that, with respect to drinking water, TDEC's goal was to increase that pace by obligating the remaining funds appropriately and to create sustainable demand. Furthermore, she stated that the American Water Infrastructure Act 2018 gives TDEC additional authority to lengthen the term of drinking water loans from 20 to 30 years, and up to 40 years for economically stressed communities. She then stated that water loss was a huge concern for the state of Tennessee, and in consideration of that, TDEC's priority was to learn how SRF can be part of the solution. In order to do that, she said that TDEC would be working with John Greer, the utilities specialist for the Tennessee Comptroller of the Treasury, and others across the division of water resources to get out into the communities and identify problems. In addition, TDEC plans to fund water loss training, publish drinking water's priority ranking list more frequently, and provide information/education on the loan process. She said, as a last resort, funds could be transferred from the drinking water fund to clean water fund.

Mr. Hargett asked if it would take two or three months for TDEC to accomplish its goals. Ms. Gillespie-Marthaler responded affirmatively. Mr. Martin then commented that there clearly was a need, but for some reason communities were not taking advantage. Mr. Lillard stated that there was a reluctance on the part of utility board commissioners to raise rates necessary to fund loans. He also said that water loss was nearly a universal issue, particularly in rural systems. He inquired whether it was training the communities needed, or just a reluctance to raise rates. Ms. Gillespie-Marthaler answered by saying a lot of it could be reluctance in raising rates, but that communities have other options to take before signing a SRF loan. For example, in the past, smaller communities have found that rural development loans were more attractive. She stated that TDEC may now be able to offer better terms, and that it could educate communities regarding planning and design loans so that borrowers know exactly what to do in order to move forward through the loan process. She commented again about the reluctance of raising rates, and added, that at some point these communities would be required to raise rates.

Mr. Martin questioned whether all of this affects water quality. He then stated that it was not just a case of pushing a solution where there was no problem. Ms. Gillespie-Marthaler responded affirmatively. Mr. Martin said that it was interesting that raising rates or cutting overhead was part of the issue at this point.

Mr. Lillard then asked if the Comptroller's office had a standard of sufficiency for water systems that could be applied to let communities know when standard for water loss was not met. Mr. Hargett replied by saying that the Comptroller did have some oversight capability. Dr. Moore asked if our role was more than just advocacy, and Mr. Lillard responded affirmatively. Mr. Lillard stated that the question was whether communities were meeting an industry standard in the utility business concerning water loss. If not, that would indicate deferred maintenance or that capital projects were being ignored.

Mr. Hargett asked if there were any other questions or comments. Dr. Moore then inquired whether the communities or utility districts are required to do rate studies. He stated that the city of Franklin participates in rate studies consistently to ensure adequate funding going forward. Mr. Lillard said that he was not aware of any, and recognized Ms. Ann Butterworth, Assistant to the Comptroller for Public Finance, to respond to the question. Ms. Butterworth stated that communities not in compliance with water loss requirements were referred by local government audit, and the Comptroller's office would then order a rate study. Dr. Moore asked what percentage that was, and she replied that she would need to look up that information. She continued by saying that it was reviewed on a percentage basis in the beginning, but now an overall approach with a combination of factors was used. For example, the cost of some repairs may not be in the community's financial best interest to make.

Mr. Hargett complimented the thoroughness of TDEC's report and said that the Authority looked forward to hearing of its progress. He also stated the Authority's willingness to individually discuss the topic more in depth. Mr. Hargett asked for questions or comments from the Authority. There was no further discussion. The SRF priority ranking lists were included in the meeting materials. No action was required.

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

Mr. Wolfe—Aye  
 Mr. Lillard—Aye  
 Mr. Hargett—Aye  
 Mr. Martin—Aye  
 Dr. Moore—Aye  
 Mr. Wood—Aye

The meeting was adjourned.

Approved on this 8<sup>th</sup> day of February, 2019

Respectfully submitted,

  
 Sandra Thompson  
 Assistant Secretary