

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
June 15, 2021

The Tennessee Local Development Authority (the "TLDA") met on Tuesday, June 15, 2021, at 2:45 p.m. in the Executive Conference Room, Ground Floor, State Capitol, Nashville, Tennessee. The Honorable Tre Hargett, Secretary of State, was present and presided over the meeting.

The following members were also present:

The Honorable Jason E. Mumpower, Comptroller of the Treasury
The Honorable David H. Lillard, Jr., State Treasurer
Commissioner Butch Eley, Department of Finance and Administration
Ms. Paige Brown, 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 Lee, Governor

Recognizing a quorum present, Mr. Hargett called the meeting to order.

Mr. Hargett stated that the first item on the agenda was approval of the minutes from the May 24, 2021, TLDA meeting. Mr. Hargett asked for a motion to approve the minutes. Mr. Mumpower made a motion to approve the minutes, and Ms. Brown seconded the motion. Mr. Hargett asked all in favor to say aye and all opposed to say no. By a vote of 6 – 0, the motion carried, and the minutes were unanimously approved.

Mr. Hargett called upon Ms. Sandi Thompson, TLDA Assistant Secretary and the Director of the Division of State Government Finance (DSGF) to present the next item on the agenda. Ms. Thompson stated that the next item was listed as a request for approval, but was actually a notification by the Water Authority of Dickson County (the "Authority") submitted to comply with TLDA SRF Policy and Guidance for Borrowers. Ms. Thompson stated that the Authority had submitted notification to the TLDA that it was proposing to issue Water and Wastewater Revenue Refunding Bonds in an amount not to exceed \$23,000,000 and that it would use the funds to simultaneously repay all its outstanding SRF loans. She noted that the letter from the Authority was for notification and not a request for approval since it would be paying off its SRF debt. No further action was required by the board. Mr. Hargett asked if there was any discussion. Hearing none, and with no further action necessary, he moved on to the next agenda item.

Mr. Hargett called upon Ms. Thompson to present the next item on the agenda. Ms. Thompson stated that the next item on the agenda was a request for approval from the City of Franklin (the "City") to issue Water and Sewer System Revenue Bonds with a senior lien position to its outstanding SRF loan agreements in an amount not to exceed \$22,000,000. She stated that the request for approval was required by the provisions set forth in the SRF loan agreements and the guidelines set forth in the TLDA SRF Policy and Guidance for Borrowers. She stated that the City planned to issue the 2021 Water Sewer Revenue Bonds at competitive, public sale as a single series, and that the issuance would be in accordance with its Debt Management Policy. She stated that in 2015, the City had begun preparing for the need to renovate/expand the treatment capacity of its Wastewater Treatment Plant (WTP). She reported that its WTP cost approximately \$152,000,000, which had been funded with certain SRF borrowings. She explained that the City knew it would have to borrow an additional \$32,000,000 in order to complete the project. She further stated that the City had requested additional SRF funds, but was only able to secure another \$10,000,000

in SRF funding. In order to complete the project, she stated that the City planned to issue bonds for the remaining \$22,000,000 in the capital markets. She noted that the City is Aa3 rated by Moodys. Ms. Thompson reported that the City had timely repayments on its current SRF loans, had timely filed its audited financial statements, and that its debt service coverage ratio had met or exceeded the 1.2 times requirement. She stated that the City was not under the jurisdiction of the Utility Management Review Board (UMRB) or the Water and Wastewater Financing Board (WWFB). She concluded by saying, based on the analysis conducted by the DSGF, the City would have sufficient revenues to meet its obligations, and it appeared to meet TLDA's criteria to issue the bonds with a senior lien position to its SRF loans. Therefore, she stated that staff recommended approval of the request. Mr. Hargett then recognized representatives from the City of Franklin and asked if they had anything to add. Mr. Eric Stuckey responded by saying he would be happy to answer any questions. There were no questions. Mr. Hargett asked if there was any discussion. Hearing none, Mr. Lillard made a motion to approve the request, and Mr. Mumpower seconded the motion. Mr. Hargett asked all in favor to say aye and all opposed to say no. By vote of 6 – 0, the motion carried and the request was unanimously approved.

Mr. Hargett called upon Ms. Thompson to present the next item on the agenda. Ms. Thompson stated that the next item on the agenda was a consideration of a request for approval from the Smith Utility District (the "District") to issue a USDA Waterworks Revenue Bond in an amount not to exceed \$1,200,000 subordinate to its outstanding SRF loans. She stated that this request for approval was required by the provisions set forth in the SRF loan agreements and the guidelines set forth in the TLDA SRF Policy and Guidance for Borrowers. Ms. Thompson stated that the borrower was not requesting modification of lien position and that the proposed debt was a new money issuance. She stated that the District had a history of timely repayments and that it had a security deposit in place as well. Ms. Thompson reported that the District had not filed its audited financial statements for fiscal year end on December 31, 2019 with the Division of Local Government Audit and explained that the delay in filing was due to the timing of the release of the TCRS report and the District's year-end financials. She stated that the District would have sufficient revenues to cover its debt service and that its debt service coverage ratios would equal or exceed the 1.2 times requirement. She stated that the District was not under the jurisdiction of the UMRB or the WWFB. Ms. Thompson concluded saying, that based on analysis conducted by DSGF, the District appeared to meet the TLDA's requirements to issue the bonds subordinate to its SRF loans. Mr. Hargett inquired if staff from Smith UD was present. They were not present. Mr. Hargett asked if there was any discussion. Hearing none, Mr. Hargett made a motion to approve the request, and Mr. Lillard seconded the motion. Mr. Hargett asked all in favor to say aye and all opposed to say no. By vote of 6 – 0, the motion carried and the request was unanimously approved.

Mr. Hargett called upon Ms. Thompson to present the next item on the agenda. Ms. Thompson stated that the next two items on the agenda were similar in that both Utility Districts were borrowing \$300,000 from a local bank in order to refund some current debt for cost savings. She stated that Big Creek Utility District (the "District") was requesting approval from the TLDA to issue Waterworks Revenue and Refunding Bonds in an amount not to exceed \$300,000 subordinate to its outstanding SRF loans. Ms. Thompson stated that this refunding had an estimated net present value savings of \$132,481 or 29%. She stated that the proposed debt was not structured in a manner that constitutes balloon indebtedness. She stated that although the District did not have a debt rating, it did have a history of timely repayments on its current outstanding SRF loans, and it had a security deposit in place as well. She reported that the District had not filed its audited financial statements timely due to its fiscal year end (February 28, 2020) and the release of the TCRS report. Ms. Thompson stated that the District's revenues would be sufficient to cover the debt service and the debt service ratios either equaled or exceeded the 1.2 times requirement. However, she stated that the reports showed the District debt service coverage ratios for the past two years were 0.52 times and 0.53 times for fiscal year 2020 and 2021. She further stated that the projected debt service coverage ratios were similar at 0.53 times to 0.55 times for fiscal years 2022 through 2024. She noted that the District was not under the jurisdiction of the UMRB or WWFB. Ms. Thompson concluded saying, that although it appeared that due to insufficient debt service coverage ratios, the District would not meet the TLDA's criteria to issue the refunding bonds subordinate to its SRF loans, the District had significant unrestricted cash reserves which would cover at least two years worth of debt service payments. Therefore, she stated that staff recommended the TLDA approve the District to issue refunding bonds subordinate to its outstanding SRF loan agreements. Mr. Hargett asked if there was any discussion. Hearing none, Mr. Mumpower made a motion to approve the request, and Ms. Brown seconded the motion. Mr. Hargett asked all in favor to say aye and all opposed to say no. By vote of 6 – 0, the motion carried and the request was unanimously approved.

Mr. Hargett called upon Ms. Thompson to present the next item on the agenda. Ms. Thompson said that similar to the Big Creek request, Griffith Creek Utility District (the "District") was requesting to issue Waterworks Revenue Refunding Bonds in an amount not to exceed \$300,000 subordinate to its outstanding SRF loan. She stated that the proposed debt was not structured in a manner that constitutes balloon indebtedness. She stated that although the District did not have a debt rating, it did have a history of timely repayments on its current outstanding SRF loan, and it had a security deposit in place as well. She reported that the District had filed its audited financial statements timely and that it would have sufficient revenues to cover its debt service. Ms. Thompson stated that its debt service coverage ratio either met or exceeded the 1.2 times requirement. In addition, she stated that the District's past two years of debt service coverage had been sufficient and that its debt service coverage for the next five years would be sufficient as well. She reported that the District was under the jurisdiction of the UMRB due to financial distress. However, she stated, that per discussions with Local Government Finance and UMRB staff, the DSGF understood that there were corrective action orders submitted and that the District had made satisfactory progress on those orders. She stated that UMRB staff also noted the interest savings on the proposed issuance would be beneficial to the District. Ms. Thompson concluded saying, based on analysis conducted by the DSGF, the District would meet the TLDA's criteria to issue the refunding bonds subordinate to its SRF loans. Mr. Hargett asked if there was any discussion. Hearing none, Ms. Brown made a motion to approve the request, and Mr. Lillard seconded the motion. Mr. Hargett asked all in favor to say aye and all opposed to say no. By vote of 6 – 0, the motion carried and the request was unanimously approved.

Mr. Hargett stated that the next item on the agenda was a report on SRF fund balance to reflect addition of the capitalization grants. He recognized Mr. Adeniyi Bakare, SRF Program Manager for the Tennessee Department of Environment and Conservation (TDEC), to present the report. Mr. Bakare stated that as of May 24, 2021, the Clean Water State Revolving Fund Loan Program (CWSRF) had an unobligated balance of \$49,267,235. He further stated that there were two increases to the fund. The first increase was the FY2020 EPA Capitalization Grant in the amount of \$13,111,500, and the second increase was the state match funds in the amount of \$2,622,300. Mr. Bakare concluded the CWSRF report by stating that the remaining funds available for loan obligations was \$65,001,035. He continued with the report on the Drinking Water State Revolving Fund (DWSRF), stating that the unobligated balance as of March 22, 2021, was \$66,613,776. He reported two increases to the fund, and stated that the first increase was for the Town of Brighton in the amount of \$27,832, and the second was for the City of Oak Ridge in the amount of \$227,600. Mr. Bakare concluded with the DWSRF saying, the funds remaining for loan obligations would be \$66,869,208. Mr. Hargett asked if there were any questions about the reports. Mr. Eley answered affirmatively and stated that he knew all were aware of the American Rescue Plan (ARP) and the substantial funds that would be coming to the state for water purposes. He asked what the impact would be on the SRF program moving forward. Mr. Hargett recognized Mr. Mumpower to respond. Mr. Mumpower stated that the ARP, and the fact that the funds could be used for water sewer investments, was clearly in line to assist with the same types of projects funded by the SRF. Mr. Mumpower stated that local governments were receiving and using the money in that way. He stated that there had been initial discussions about possibly partnering communities and state dollars to enhance what was being done. The ARP funds are overly restrictive in many ways, however, he stated that the door was wide open for spending on water and sewer. He stated that any thoughts were welcome. Mr. Bakare responded by explaining that the SRF was experiencing a response from communities that were deciding not to proceed with SRF loans because they could potentially use the stimulus money to fund their projects. Mr. Mumpower stated that less demand would make sense with the amount of money that would be available from the stimulus. Mr. Eley asked Mr. Bakare if TDEC thought another group of interested entities that may be lower on the priority ranking list would get an opportunity for SRF funding, or if the overall demand would go down. Mr. Bakare responded affirmatively, saying he thought the overall demand would go down, but stated that he did not think all entities would decide to leave the SRF program. He stated that he thought TDEC would have opportunities to fund projects for other communities that may not normally have an opportunity to be funded. Mr. Mumpower stated that it could be expensive water and sewer projects, and although communities may not want to use all of their ARP money on water and sewer projects, it was possible that communities would use it as seed money for some portion of a project, and that they may need SRF assistance for the remaining portion of that project. He stated that he agreed with Mr. Bakare that demand may decline, but thought it could also pick back up at some point in time with communities wanting SRF to finish the second half of a project. Mr. Mumpower noted that the first half of the money was coming now and the second half would come a year from now. However, he stated, that they

would have until December 31, 2021 to obligate the money and then by the end of 2026, they would spend to see the project to completion. Mr. Lillard asked if there was any way under this program to prioritize those water districts that had the highest percentage of water loss out of their system. He inquired if TDEC could re-evaluate its requirements to put these higher risk entities in a position to use the funds to supplement other funds, or in some other way prioritize getting their system up to what we consider acceptable standard. He asked about creating a higher risk band. Mr. Hargett said that was a great point and asked TDEC to come back to the TLDA with some recommendations about what could be done to incentivize that kind of activity. Mr. Lillard then asked if there were any records to show which systems had the most water loss and how they rank across the state. Mr. Mumpower responded by introducing the Chairman of the WWFB and UMRB, Betsy Knotts, to answer the question. She stated that an annual report was issued that summarized all the water loss percentages for all utilities across the state. She noted that the data on the report was unaudited but it was available. Mr. Lillard stated that was acceptable. Mr. Mumpower stated in regards to Mr. Lillard's point, that communities that had the greatest percentage of water loss were also the most financially distressed. He stated that for the purpose of these loans, potentially creating a higher risk band that may or may not have the debt coverage would have to be analyzed individually. He further stated that it may be the only way to ever get them out of their financially distressed situation. Mr. Lillard responded and said that he talked about creating a higher risk band because if we go through all the money from the federal government plus what we have and still do not end up dealing with these systems, then problems could impact communities in the future for centuries. Mr. Hargett responded that it would be a missed opportunity to not focus on the most distressed systems, and Mr. Mumpower agreed. Mr. Lillard stated that it was time to get these systems straightened out. Ms. Brown asked what might be the core at approving the additional taps. She stated that there were a lot of small districts in her area thinking about being able to afford some kind of infrastructure. She stated that the health of a small system was always challenging. Mr. Hargett responded affirmatively. He then asked if there was any further discussion. There was no further discussion.

Hearing no other business, Mr. Hargett asked for a motion to adjourn. Mr. Lillard made a motion, and Mr. Mumpower seconded the motion. Mr. Hargett asked all in favor to say aye and all opposed to say no. By a vote of 6 – 0, the meeting was adjourned.

Approved on this 22nd day of July, 2021.

Respectfully submitted,



Sandra Thompson
Assistant Secretary