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**TENNESSEE STATE FUNDING BOARD**  
**FEBRUARY 26, 2015**  
**AGENDA**

1. Call meeting to order
2. Approval of minutes from the December 11, 2014 and December 16, 2014, meetings
3. Report from the Department of Economic and Community Development (ECD) for approval of funding for the following projects:
  - **Unipres USA, Inc. – Portland (Sumner Co.)**

FastTrack Economic Development FastTrack	\$ 1,565,000
Job Training Assistance	\$ 435,000
  - **Parkdale Mills, Inc. – Mountain City (Johnson Co.)**

FastTrack Economic Development	\$ 2,000,000
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4. Consideration and approval of “A Resolution Authorizing and Providing for the Issuance and Sale of General Obligation Bonds of the State of Tennessee” and delegation of authority to sell and fix the details of the bonds
5. Report from the Comptroller’s office on requests for approval of plans of balloon indebtedness
6. Adjourn

**TENNESSEE STATE FUNDING BOARD**  
**December 11, 2014**

The Tennessee State Funding Board (the "Board") met on Thursday, December 11, 2014 at 1:00 p.m., in the Legislative Plaza, Room LP-16, Nashville, Tennessee. The following members were present:

The Honorable Tre Hargett, Secretary of the State of Tennessee  
The Honorable Justin Wilson, Comptroller of the Treasury  
The Honorable David Lillard, State Treasurer  
Commissioner Larry Martin, Department of Finance and Administration

The following member was absent:

The Honorable Bill Haslam, Governor

Seeing a physical quorum present Mr. Wilson called the meeting to order.

Mr. Wilson recognized Commissioner Martin who presented a report on the November 2014 revenues. On an accrual basis, November is the fourth month in the 2014-2015 fiscal year. Commissioner Martin reported that State revenue collections for November were \$823.7 million, which was 3.10% more than November 2013. Commissioner Martin stated that sales tax revenues showed significant improvement over this time last year, but it remained to be seen if this growth pattern would be sustainable. Commissioner Martin stated that the franchise and excise ("F&E") taxes remained volatile and had been less than what was budgeted for the past two months. Commissioner Martin reported that sales tax collections were \$24.9 million above the estimate for November, which was a growth rate of positive 7.28%. Commissioner Martin reported that F&E combined collections for November were \$16.1 million, which was below the budgeted estimate of \$45.1 million; however, the year to date growth rate for four months was 2.44%. No action was necessary.

Mr. Wilson stated that, pursuant to Tennessee Code Annotated Section 9-4-5202(e), the Board is charged with the responsibility of developing consensus ranges of estimated state revenue growth. To assist the Board in doing so, the Board invited the following economists and persons acquainted with the Tennessee revenue system to make presentations: Mr. Lee Jones of the Federal Reserve Bank of Atlanta; Dr. Albert DePrince of Middle Tennessee State University; Dr. William Fox of The University of Tennessee Center for Business and Economic Research; Commissioner Richard Roberts of the Tennessee Department of Revenue; and Mr. Robert Currey of the legislative Fiscal Review Committee ("FRC").

The consensus of the presenters was that economic growth continues to be moderate. Inflation is stable and not a concern for the near future. The presenters acknowledged that the national and state economies continue to experience positive growth. Real GDP growth, since the start of the recovery in the summer of 2009, has averaged about two percent annually, though future growth may be somewhat stronger. Volatility in franchise and excise taxes in Tennessee was pointed to as a particular concern.

Traditionally, Tennessee's economy tends to track the nation's economy. Presenters noted that there has been improved growth in the national economy, as well as Tennessee's economy in recent months, evidenced by relatively strong growth in sales tax collections. The housing sector had improved, but continues to be below previous highs. The presenters expected moderate growth in the housing market in the near future, though not to pre-recession levels. One presenter noted Tennessee may see automobile sales start to grow more sluggishly, but housing starts could begin showing more vitality. Business investment remains slow, in terms of historical cycles, but is more robust compared with earlier years of

this expansionary period. Additionally, studies indicate consumer sentiment is on the rise, as personal consumption is expected to increase in the coming quarters.

One presenter viewed a consequence of concluding the Federal Reserve's quantitative easing program has been the assumption that U.S. interest rates will begin rising next year, while rates in Europe will remain stable. As a result of this belief, the dollar has appreciated in value against the Euro and the fallout could ultimately produce a reduction in exports to Europe and an influx of imports from Europe, causing mitigating effects on any improvement in GDP.

Employment growth both nationally, and specifically in Tennessee, has been positive. Over the past year, payroll employment recovered to pre-recessionary levels and initial claims for unemployment have returned to historical averages. Conversely, wage growth has been stagnant since 2009 at around 2% growth annually. As of October, Tennessee's unemployment rate of 7.1% remained higher than the national average. One presenter asserted that, in a comparison of employment and unemployment data for twelve southeastern states, ten showed signs of very good employment growth mixed with a rising unemployment rate in the current year. He believes this point to an anomaly in the way the Bureau of Labor Statistics (BLS) measures this data for the southeastern states, making it inconsistent with the rest of the nation. He noted the BLS recognized the concerns regarding the inconsistencies and would be changing their methodology in January 2015.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation ("TELC") from Mr. Currey, Chief Economist of the FRC and Mr. Andy Davis, Chief Financial and Technology Officer of the TELC.

Legislation in 2003 created the TELC. Pursuant to Tennessee Code Annotated Section 4-51-111(c), the Board is required to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the four succeeding fiscal years.

Mr. Currey presented the FRC's lottery projections to the Board. Mr. Currey observed that net lottery proceeds continued to grow. For fiscal year 2013-14, total net revenue grew at 3.37%, while net lottery proceeds grew at 0.45%. According to Mr. Currey, most of the growth was coming from instant game products, specifically the higher price point tickets. Instant games represent roughly 80% of sales. Last year, instant game product sales grew 5.51%, while growth in the multijurisdictional games (jackpot games) was -3.84%. Powerball sales growth for fiscal year 2013-14 was -24.2%. Mr. Currey recognized several factors regarding this decline. First, the jackpot cycles were lower. Additionally, the introduction of "Hot Lotto" in late fiscal year 2012-13 shifted some sales to the new game that may have otherwise been attributed to Powerball. Mr. Currey also attributed some of the decline to jackpot fatigue, noting that sales decline for a fixed level jackpot over time. He stated that jackpot amounts have to increase over time to even maintain a fixed level of sales. Mr. Currey estimated that Net Lottery Proceeds available for deposit into the Lottery Education Account for fiscal years 2014-15 and 2015-16 would be 24.2% and 23.9% of total net revenue, respectively. Additionally, Mr. Currey estimated fiscal year 2014-15 growth in Net Lottery Proceeds ranging from 0.62% to 3.01%. Mr. Currey estimated fiscal year 2015-16 growth in Net Lottery Proceeds ranging from 1.29% to 2.92%. Due to the high level of uncertainty, Mr. Currey projected the growth in total net revenues and Net Lottery Proceeds for fiscal years 2016-17 through 2018-19 to be 2.5% and 1.8%, respectively.

Mr. Davis highlighted fiscal year 2014-15 year-to-date information, including gross sales growth of 1.3%, as of October 31, 2014. Mr. Davis presented estimates of total and Net Lottery Proceeds for the current fiscal year and four succeeding fiscal years. Mr. Davis estimated positive growth in Net Lottery Proceeds for fiscal year 2014-15 ranging from 1.55% to 3.10%. Mr. Davis estimated positive growth in Net Lottery Proceeds for fiscal year 2015-16 ranging from 1.52% to 2.10%. TELC projected 2% growth in

Net Lottery Proceeds for fiscal year 2016-17 through fiscal year 2018-19. Mr. Davis stated that these three year projections were reached making assumptions based on the industry average and TELC growth.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board with the assistance of the Tennessee Student Assistance Corporation ("TSAC") to project long-term funding needs of the lottery scholarship and grant programs. These projections are necessary to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard testimony from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs of TSAC.

Mr. Phelps presented a projection for fiscal year 2014-15, which estimates 107,200 awards, with a projected baseline cost of \$311.6 million. Mr. Phelps also presented award estimates for fiscal year 2015-16 of 110,400 with a projected baseline cost of \$321.0 million. Additionally, it was estimated that there will be 113,700 awards in fiscal year 2016-17, with a projected baseline cost of \$330.4 million, 116,800 awards in fiscal year 2017-18 with a projected baseline cost of \$339.5 million, 118,200 awards in fiscal year 2018-19 with a projected baseline cost of \$343.5 million, and 119,600 awards in fiscal year 2019-20 with a projected baseline cost of \$347.6 million. These awards include all lottery-funded scholarship programs as authorized through the 2014 session of the General Assembly, including Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, Hope Access Grant, Wilder-Naifeh Technical Skills Grant, Non-traditional Student Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, Helping Heroes Grant, the Rural Health Loan Forgiveness Program and Tennessee Student Assistance Award.

Mr. Wilson then presented for discussion a request from the Department of Education for \$23,000 from Net Lottery Proceeds for Lottery Scholarship Day for fiscal year 2015-16, pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B). Mr. Wilson explained that the funding would support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement not supplant, non-lottery educational resources for educational programs and purposes. The Board members recognized the request from the Department of Education. No further action was necessary.

Mr. Wilson then recognized Mr. Andy Palmer, Deputy Chief Investment Officer of the State of Tennessee Treasury Department, who presented the Report of Treasurer's Earnings on the Lottery for Education Account. Mr. Palmer reported that with the creation of the Tennessee Promise Endowment, which receives partial funding from the Lottery for Education Reserve, the remaining assets in the Reserve at June 30, 2014 were valued at \$110 million. Mr. Palmer recommended that the full balance of the assets should reside in the State Pooled Investment Fund ("SPIF") to reduce the probability of a negative balance throughout the year as payments and disbursements occur. Mr. Palmer stated that for fiscal year 2013-14 and in future fiscal years the investment earnings would come primarily from the return on the SPIF balances. Mr. Palmer stated that assuming SPIF returns continue at the current rate, Lottery for Education Reserve interest earnings were projected as follows: \$1,167,670 for fiscal year 2013-14; \$75,000 for fiscal year 2014-15 and \$75,000 for fiscal year 2015-16. Mr. Hargett made a motion to approve the recommendations presented by Mr. Palmer. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Tim McClure, Director of Cash Management Division of the State of Tennessee Treasury Department, who presented a report on the SPIF for the fiscal year ended June 30, 2014. Mr. McClure reported that the SPIF had a monthly average of approximately \$8 billion invested for the fiscal year. He also noted that the SPIF had a dollar weighted average maturity of 112 days, which was consistent with the Security and Exchange Commission's Rule 2a-7 as amended in 2010, which

requires a dollar weighted average portfolio maturity of up to 120 days and a maximum maturity of any single investment of 397 days or less. Mr. McClure reported that the SPIF met liquidity requirements of Rule 2a-7, which required that no more than 5% of the portfolio can be invested in illiquid securities, at least 10% of the portfolio must be invested in daily liquid assets, and at least 30% of the portfolio must be invested in weekly liquid assets. At June 30, 2014 the SPIF had 83% in daily liquid assets, 85% in weekly liquid assets, and no exposure to illiquid assets. Mr. McClure reported that the portfolio was stress tested in accordance with Rule 2a-7 and in each case it achieved positive results. He also reported that the income earned on the portfolio during the fiscal year ended June 30, 2014, totaled \$12 million. Mr. McClure informed the Board that there is a possibility that changes will need to be made to the SPIF Investment Policy during the next year because the SEC made substantial changes to Rule 2a-7 in July, which funds must be in compliance with no later than October 14, 2016. He stated that the SPIF is considered a "2a-7 like" fund in order to comply with GASB 31 rules. No further action was necessary.

Mr. McClure then presented a Report on the Intermediate Term Investment Fund ("ITIF"). The ITIF was launched when the first participant invested \$200 million on July 22, 2013. Mr. McClure reported there were no additional deposits or withdrawals made during the fiscal year 2013-14. Mr. McClure reported that the objective of the ITIF is to take advantage of the expected additional return from investing farther out on the yield curve, and that investments can have a maturity of up to 5 years with an average maturity of no more than 3 years. At June 30, 2014, the weighted average maturity was 2.14 years. On average during the 2013-14 fiscal year, 99.5% of the investments in the ITIF were in U.S. governmental agency securities. Mr. McClure reported that the initial deposit had a net increase of 60 basis points during the fiscal year ended June 30, 2014. Mr. McClure stated that there was no investment policy changes anticipated for the current fiscal year. No further action was necessary.

After the presentations were completed, the Board directed staff to meet and discuss the information provided by each presenter and to present staff recommendations of consensus revenue and lottery estimates to the Board at its reconvened meeting on Tuesday, December 16, 2014. After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene on Tuesday, December 16, 2014, at 1:00 p.m., in the Legislative Plaza, Room 29, Nashville, TN.

**RECONVENED**  
**December 16, 2014**  
**1:00 p.m.**

The Board reconvened on Tuesday, December 16, 2014, at 1:00 p.m., in the Legislative Plaza, Room 29, Nashville, TN. The following members were present:

The Honorable Tre Hargett, Secretary of State  
The Honorable Justin P. Wilson, Comptroller of the Treasury  
The Honorable David Lillard, State Treasurer  
Commissioner Larry Martin, Department of Finance and Administration

The following member was absent:

The Honorable Bill Haslam, Governor

Mr. Wilson then recognized Representative Charles Sargent and Representative Steve McDaniel, who were in attendance for the meeting.

Seeing a quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the November 21, 2014 Board meeting. Mr. Hargett made a motion to approve the minutes. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. David Thurman, Director of the Division of Budget within the Tennessee Department of Finance and Administration, who presented the staff recommendation of the consensus revenue estimates expressed in ranges of growth rates in State tax revenue collections:

	FY 2014-15		FY 2015-16	
	Low	High	Low	High
Total State Taxes	3.45%	3.80%	2.55%	2.95%
General Fund	3.85%	4.20%	2.60%	3.00%

Commissioner Martin made a motion to approve the consensus revenue estimates as recommended by staff. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Thurman then presented the staff recommendation of the estimates expressed in ranges of growth rates of the Net Lottery proceeds to be deposited in the Lottery for Education Account. The Board is required to provide a five-year forward projection for the Net Lottery Proceeds benefitting the HOPE Scholarship program. Mr. Thurman stated that the staff recommended the following ranges for each of the five years:

Net Lottery Proceeds	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Low	0.50%	0.49%	0.74%	0.76%	0.76%
High	3.01%	1.71%	1.71%	1.71%	1.71%

Mr. Lillard made a motion to approve the estimates in the ranges of growth of Net Lottery Proceeds as recommended by staff. Mr. Wilson seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Allen Borden, Assistant Commissioner, Department of Economic and Community Development (“ECD”), who presented FastTrack projects for consideration and Mr. Paul VanderMeer, Senior Financial Advisor, ECD, who presented the FastTrack funding report. Mr. VanderMeer reported that as of the date of the last Board meeting the FastTrack balance was \$135.6 million and since that time, obligations and deobligations left a remaining balance of \$132.8 million as of this meeting. Mr. VanderMeer reported that there were \$109.1 million in commitments, leaving an uncommitted FastTrack balance of \$23.6 million. Mr. VanderMeer reported that the projects to be considered totaled \$3,087,000, and if these projects were approved the uncommitted balance would be \$20.5 million, which means that 84.5% would be committed.

Mr. Borden stated the project needed to be considered and approved by the Board because state law required that FastTrack projects in amounts exceeding \$750,000 per eligible business within any three-year period be reviewed and approved by the Board. Mr. Borden then presented the following FastTrack projects:

- **Yamaha Jet Boat Manufacturing USA, Inc. – Vonore (Monroe Co.)**      Amount  
Fast Track Economic Development      \$ 870,000
- **Target Corporation – Memphis (Shelby Co.)**  
Fast Track Economic Development      \$2,217,600

Mr. Wilson stated that the Board received a signed letter from Mr. William Hagerty, Commissioner of ECD, which stated that the projects met all the statutory requirements; and a FastTrack Checklist was completed and signed by Mr. Hagerty for the projects under consideration. Mr. Wilson inquired if the information contained in the letter and checklists was true and correct. Mr. Borden responded affirmatively. Mr. Hargett inquired as to the biggest reason that the State was able to land the Target Corporation project. Mr. Borden stated that he believed it was due to the State's geographic location and also because of the available workforce in the State. Mr. Hargett made a motion to approve the FastTrack grants for the projects presented. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Wilson stated that the next item of business was consideration of a staff recommendation to appoint a financial advisor for the Board. He said that staff was recommending Public Financial Management, Inc. (PFM) who had satisfactorily responded to the Request for Proposal that had been distributed on October 23, 2014. (A cost proposal from PFM and a draft contract were included in the meeting materials.) Mr. Wilson moved approval of the recommendation. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for consideration and approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund \$1,400,000 and Canceling a Like Amount of Bonds Authorized for the Purpose of Providing Fund to the Department of Finance and Administration". Mr. Wilson explained that purpose of the Resolution was to cancel bonds for the West TN Megasite project. Commissioner Martin made a motion to approve the Resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Ms. Ann Butterworth, Assistant Secretary to the Board, who presented comments received on and consideration of approval of a request for Blanket Exemption from Comptroller approval of Balloon Indebtedness. Ms. Butterworth stated that the proposed Blanket Exemption had been posted on the Comptroller's website, and that the comment period ended December 12, 2014. Ms. Butterworth stated that three comments were received from external parties and one comment from an internal party. Ms. Butterworth explained that each Board member was provided a copy of staff's recommended changes to the proposed Blanket Exemption. Mr. Wilson made a motion to approve the Blanket Exemption. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Ed Harries, Executive Director, and Ms. Danielle Brown, Financial Director from Tennessee State Veterans' Home Board ("TSVHB"), who presented a report on TSVHB operations. Ms. Brown reported that as of October 31, 2014 net income exceeded the budget by \$411,000. Ms. Brown reported that the occupancy rate as of November 30, 2014 for the Murfreesboro home was 136, for Humboldt it was 130, and for Knox County it was 134. Ms. Brown reported that the Local Government Investment Pool fund balance as of November 30, 2014 was approximately \$15 million. Ms. Brown reported that the Clarksville Veterans Home was under construction and is anticipated to be complete in Spring 2015. Ms. Brown reported the State Audit was completed in October 2014 and there were no findings reported. Mr. Harries then reported that the Murfreesboro home had its State Annual Survey from the Department of Health which noted three minor deficiencies and assigned a 4-star rating to the facility. He reported that the Humboldt home had its State Annual Survey and it was a clinically perfect survey. The Knox County home's survey noted one minor deficiency. Both the Humboldt and Knox County homes are rated 5-star facilities. No further action was necessary.

Mr. Wilson then recognized Mr. Charly Lyons, Executive Director, Four Lakes ("4L")/Tennessee Central Economic Alliance and Mr. Anthony Holt, Chairman of 4L. Mr. Lyons reported on highlights of 4L from the past year. Mr. Lyons reported that Trousdale County had approximately 500 new jobs brought to the

area. He reported that 4L purchased a new building and brought a new company into the building. Mr. Lyons reported that 4L administered a grant program benefiting all communities within the 4L region. No further action was necessary.

Mr. Wilson then recognized Ms. Carrie Dawson, Director of Cash Management within the Tennessee Department of Finance and Administration, who presented the Cash Management Improvement Act ("CMIA") report for the fiscal year 2013-14. Ms. Dawson stated that the CMIA report would be submitted by December 31, 2014. Ms. Dawson explained that approximately \$11.4 billion was transferred between the federal government and the State. Ms. Dawson reported that for fiscal year 2013-14, the result of the exchange of funds was a net federal interest liability was \$1,200. No further action was necessary.

Mr. Wilson then recognized Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Office of State and Local Finance, who presented a report on the State of Tennessee commercial paper ("CP") program. Ms. Thompson summarized the follow points for the period of July 1, 2014, to November 30, 2014.

- The current outstanding balance for taxable CP was \$25,999,000 and \$217,487,000 for tax-exempt CP; the combined outstanding balance was \$243,486,000.
- The interest rates for taxable CP ranged from 0.15% to 0.20%, and the weighted average yield was 0.18%.
- The interest rates for tax-exempt CP ranged from 0.07% to 0.09% and the weighted average yield was 0.08%

After requesting other business and hearing none, Mr. Wilson adjourned the meeting.

Approved on this \_\_\_\_ day of \_\_\_\_\_, 2015

Respectfully submitted,

Sandra Thompson  
Assistant Secretary





DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

RANDY BOYD  
COMMISSIONER

BILL HASLAM  
GOVERNOR

February 19, 2015

Comptroller Justin Wilson  
First Floor, State Capitol  
Nashville, TN 37243

Dear Comptroller Wilson:

The Department of Economic & Community Development (the "Department") seeks approval by the State Funding Board (the "Board") pursuant to T.C.A. § 4-3-717(a) authorizing FastTrack infrastructure, training and economic development grants where there is a commitment by an eligible business to create or retain private sector jobs or engage in private investment or where the Commissioner of Economic and Community Development determines that such investment will have a direct impact on employment and investment opportunities in the future. The following projects meet the statutory requirements and the Department presents these projects to the Board pursuant to the mandates of T.C.A. § 4-3-717(e), which requires approval of grants and loans under the FastTrack Infrastructure Development Program, the FastTrack Job Training Assistance Program, and the FastTrack Economic Development Program that exceed \$750,000 per eligible business within a three (3) year period.

1. **Unipres USA, Inc. – Portland (Sumner County)**

Unipres USA, Inc. is a major manufacturer of automotive parts and components. The Company plans to expand their Portland operation. The manufacturing operation will produce the stamped metal exterior parts for the Nissan Rouge and other automotive components. The Company will have an average wage rate of \$16.40 per hour for the new positions.

Unipres USA, Inc. has committed to create 435 new jobs and to make a \$61,500,865 capital investment within five years.

FastTrack Economic Development Program funds will be used to assist the project with construction and improvements for the new expansion in Sumner County. **(\$1,565,000)**

FastTrack Job Training Assistance Program funds will be used to train the new workforce needed for the expansion. **(\$435,000)**

**Total FastTrack funds for this project - \$2,000,000**

Comptroller Justin Wilson  
February 19, 2015  
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**2. Parkdale Mills, Inc. – Mountain City (Johnson County)**

Parkdale Mills, Inc. is a major manufacturer of thread yarn. The Company plans to expand their Mountain City operation. The manufacturing operation will produce thread yarn. The Company will have an average wage rate of \$14.76 per hour for the new positions.

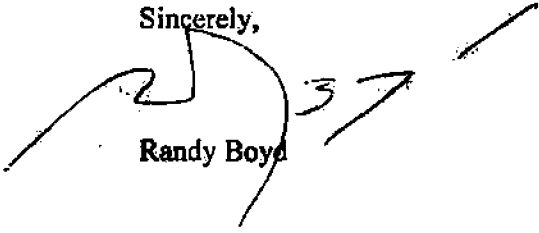
Parkdale Mills, Inc. has committed to create 80 new jobs and to make a \$120,177,820 capital investment within five years.

**FastTrack Economic Development Program funds will be used to assist the project with construction and improvements for the new expansion in Johnson County. (\$2,000,000)**

**Total FastTrack funds for this project - \$2,000,000**

In conclusion, I would like to thank the Board for its assistance and continued support of ECD as we strive to create job opportunities for the citizens of our State.

Sincerely,



Randy Boyd

RB:ptf



DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

RANDY BOYD  
COMMISSIONER

BILL HASLAM  
GOVERNOR

February 19, 2015

Comptroller Justin Wilson  
First Floor, State Capitol  
Nashville, TN 37243

Dear Comptroller Wilson:

Pursuant to Tennessee Code Annotated §4-3-717 (d)(1)-(2), I am writing to inform you that the Department of Economic and Community Development is awarding an Economic Development Grant to the Industrial Development Board of the City of Portland for the benefit of Unipres USA, Inc. in the amount of \$1,565,000 to assist the company with construction and improvements for the new expansion. The project activities would not be eligible for the FastTrack Infrastructure Development Program.

This project will yield a proportionately significant impact on the community due to the large number of new jobs and substantial capital investment. Unipres USA, Inc. has committed to create 435 new jobs and to make a \$61,500,865 capital investment within five years. The company will have an average wage of \$16.40 per hour for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

A handwritten signature in black ink, appearing to read "Randy Boyd", with a large, stylized flourish extending from the end of the signature.

Randy Boyd

## State Funding Board FastTrack Checklist

FastTrack grants or loans exceeding seven hundred fifty thousand dollars (\$750,000) per eligible business within a three-year period require state funding board approval T.C.A. § 4-3-717(e).

Please identify the type of FastTrack funding requested and the grant or loan amount:

TYPE OF FUNDING	RECIPIENT ENTITY	GRANT AMOUNT	LOAN AMOUNT
INFRASTRUCTURE			
TRAINING*	Unipres USA, Inc.	\$435,000	
ECONOMIC DEVELOPMENT	Industrial Development Board of the City of Portland	\$1,565,000	
<b>TOTAL</b>		<b>\$2,000,000</b>	

(Recipient entity must be a local government, their economic development organization, a political subdivision of the state, or an eligible business beneficiary (for training only).)

\*ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity): Unipres USA, Inc.

Complete the General Statutory Compliance section below and the section(s) that corresponds with the type of funding indicated above. General Statutory Compliance items apply to all types of funding represented above.

### GENERAL STATUTORY COMPLIANCE

1. Will this new commitment cause the FastTrack appropriations to be over-committed T.C.A. § 4-3-716(g)? If "yes," state funding board concurrence is required. Attach the commissioner's rationale used to determine the amount of actual commitments unlikely to be accepted based on historical program trends (maximum allowed is 130% of the appropriations available for new grants).  Yes  No
2. Will this new commitment place in jeopardy compliance with the legislative intent that actual expenditures and obligations to be recognized at the end of the fiscal year not exceed available reserves and appropriations of the programs T.C.A. § 4-3-716(g)?  Yes  No
3. Does this grant or loan comply with the legislative intent to distribute FastTrack funds in all areas of the state to the extent practicable T.C.A. § 4-3-716(f)?  Yes  No
4. Has the commissioner of economic and community development provided to the commissioner of finance and administration (with copies transmitted to the speaker of the house of representatives, the speaker of the senate, the chairs of the finance, ways and means committees, the state treasurer, the state comptroller, the office of legislative budget analysis, and the secretary of state) the most recent quarterly report regarding the status of the appropriations for the FastTrack fund T.C.A. § 4-3-716(h)?  Yes  No

Identify which of the following apply:

5. a. Does the business export more than half of their products or services outside of Tennessee T.C.A. § 4-3-717(h)(1)(A)?
- b. Do more than half of the business' products or services enter into the production of exported products T.C.A. § 4-3-717(h)(1)(B)?
- c. Does the use of business' products primarily result in import substitution on the replacement of imported products or services with those produced in the state T.C.A. § 4-3-717(h)(1)(C)?
- d. Has the commissioner of economic and community development determined the business has other types of economic activity that contributes significantly to community development education and has a beneficial impact on the economy of the state T.C.A. § 4-3-717(h)(1)(D)? If "yes," attach the commissioner's rationale.

Applicant must answer "Yes" to a or b.

6. a. Is there a commitment by a responsible official in an eligible business for the creation or retention of private sector jobs and investment T.C.A. § 4-3-717(a)? If "yes," attach documentation.
- b. Has the commissioner of economic and community development determined that this investment will have a direct impact on employment and investment opportunities in the future T.C.A. § 4-3-717(a)? If "yes," attach the commissioner's rationale.

**TRAINING**

7. Will the grant support the training of new employees for locating or expanding industries T.C.A. § 4-3-717(c)(1)?  Yes  No
8. Will the grant support the retraining of existing employees where retraining is required by the installation of new machinery or production processes T.C.A. § 4-3-717(c)(2)?  Yes  No

**INFRASTRUCTURE**

9. Is the land to be improved publicly owned and not subject to a purchase option by a private entity where the purchase option covering the land may be exercised within a period of five (5) years following the date of the infrastructure grant? T.C.A. § 4-3-717(b)(2-3)?  Yes  No
10. Is this grant or loan made to a local government, a local government economic development organization or other political subdivision of the state T.C.A. § 4-3-717(d)(1)?  Yes  No
11. In determining the level of assistance for infrastructure and site preparation, was consideration given to local ability-to-pay with areas of lesser ability being eligible for higher grant rates T.C.A. § 4-3-717(f)?  Yes  No

Applicant must answer "Yes" to a or b.

12. a. Will the grant or loan address infrastructure, such as, water, wastewater, transportation systems, line extensions, industrial site preparation or similar items where it is demonstrated that such improvements are necessary for the location or expansion of business or industry T.C.A. § 4-3-717(h)(2)?
- b. Has the commissioner of economic and community development determined the funds make significant technological improvements such as digital switches or fiber optic cabling that would have a beneficial impact on the economy of this state T.C.A. § 4-3-717(h)(2)? If "yes," attach the commissioner's rationale.

**ECONOMIC DEVELOPMENT**

13. Is this grant or loan made to a local government, a local government economic development organization or other political subdivision of the state T.C.A. § 4-3-717(d)(1)?  Yes  No
14. Is this grant or loan eligible for FastTrack infrastructure development or job training assistance funds T.C.A. § 4-3-717(d)(1)?  Yes  No
15. Will this grant or loan be used to facilitate economic development activities that include, but are not limited to, retrofitting, relocating equipment, purchasing equipment, building repairs and improvements, temporary office space or other temporary equipment related to relocation or expansion of a business T.C.A. § 4-3-717(d)(1)?  Yes  No
16. Will the funds be used in exceptional circumstances wherein the funds will make a proportionally significant economic impact on the affected community T.C.A. § 4-3-717(d)(1)? If "yes," attach an explanation of the exceptional circumstances and the proportionally significant economic impact.  Yes  No
17. The department of economic and community development is required to notify and provide the state funding board a detailed written explanation of the purpose for which this economic development grant or loan is being awarded or used T.C.A. § 4-3-717(d)(2). Attach documentation.

I have reviewed this document and believe it to be correct.

  
Commissioner of Economic and Community Development

3-9-15  
Date



February 11, 2015

Unipres USA, Inc.  
Ms. Susan Dye  
P.O. Box 799  
201 Kirby Drive  
Portland, TN 37148

Dear Ms. Dye,

Please sign and date the following, as this letter serves as notice that Unipres USA, Inc. intends, in good faith, to create 435 private sector jobs and make a capital investment of \$61,500,865 in Sumner County, Tennessee in exchange for incentives that will be memorialized in a grant agreement between Unipres USA, Inc. and the State of Tennessee.

Signature:

A handwritten signature in black ink that reads "Susan Dye". The signature is written over a horizontal line.

Date: 02-19 2015

Thank you.

Handwritten initials in black ink that appear to be "RB-71".

Randy Boyd, Commissioner, Tennessee Department of Economic and Community Development



DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

RANDY BOYD  
COMMISSIONER

BILL HASLAM  
GOVERNOR

February 19, 2015

Comptroller Justin Wilson  
First Floor, State Capitol  
Nashville, TN 37243

Dear Comptroller Wilson:

Pursuant to Tennessee Code Annotated §4-3-717 (d)(1)-(2), I am writing to inform you that the Department of Economic and Community Development is awarding an Economic Development Grant to the Johnson County Industrial Development Board for the benefit of Parkdale Mills, Inc. in the amount of \$2,000,000 to assist the company with construction and improvements for the new expansion. The project activities would not be eligible for the FastTrack Infrastructure Development Program.

**This project will yield a proportionately significant impact on the community due to the number of new jobs and substantial capital investment. Parkdale Mills, Inc. has committed to create 80 new jobs and to make a \$120,177,820 capital investment within five years. The company will have an average wage of \$14.76 per hour for the new positions. This project will have an exceptional impact on this Tier 3 County and the Northeast section of the state.**

Sincerely,

A handwritten signature in black ink, appearing to read "Randy Boyd", with a large flourish extending to the left.

Randy Boyd

**State Funding Board FastTrack Checklist**

FastTrack grants or loans exceeding seven hundred fifty thousand dollars (\$750,000) per eligible business within a three-year period require state funding board approval T.C.A. § 4-3-717(e).

Please identify the type of FastTrack funding requested and the grant or loan amount:

TYPE OF FUNDING	RECIPIENT ENTITY	GRANT AMOUNT	LOAN AMOUNT
INFRASTRUCTURE			
TRAINING*			
ECONOMIC DEVELOPMENT	Johnson County Industrial Development Board	\$2,000,000	
<b>TOTAL</b>		<b>\$2,000,000</b>	

(Recipient entity must be a local government, their economic development organization, a political subdivision of the state, or an eligible business beneficiary (for training only).)

\*ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity): Parkdale Mills, Inc.

Complete the General Statutory Compliance section below and the section(s) that corresponds with the type of funding indicated above. General Statutory Compliance items apply to all types of funding represented above.

**GENERAL STATUTORY COMPLIANCE**

1. Will this new commitment cause the FastTrack appropriations to be over-committed T.C.A. § 4-3-716(g)? if "yes," state funding board concurrence is required. Attach the commissioner's rationale used to determine the amount of actual commitments unlikely to be accepted based on historical program trends (maximum allowed is 130% of the appropriations available for new grants).  Yes  No
2. Will this new commitment place in jeopardy compliance with the legislative intent that actual expenditures and obligations to be recognized at the end of the fiscal year not exceed available reserves and appropriations of the programs T.C.A. § 4-3-716(g)?  Yes  No
3. Does this grant or loan comply with the legislative intent to distribute FastTrack funds in all areas of the state to the extent practicable T.C.A. § 4-3-716(f)?  Yes  No
4. Has the commissioner of economic and community development provided to the commissioner of finance and administration (with copies transmitted to the speaker of the house of representatives, the speaker of the senate, the chairs of the finance, ways and means committees, the state treasurer, the state comptroller, the office of legislative budget analysis, and the secretary of state) the most recent quarterly report regarding the status of the appropriations for the FastTrack fund T.C.A. § 4-3-716(h)?  Yes  No

Identify which of the following apply:

5. a. Does the business export more than half of their products or services outside of Tennessee T.C.A. § 4-3-717(h)(1)(A)?
- b. Do more than half of the business' products or services enter into the production of exported products T.C.A. § 4-3-717(h)(1)(B)?
- c. Does the use of business' products primarily result in import substitution on the replacement of imported products or services with those produced in the state T.C.A. § 4-3-717(h)(1)(C)?
- d. Has the commissioner of economic and community development determined the business has other types of economic activity that contributes significantly to community development education and has a beneficial impact on the economy of the state T.C.A. § 4-3-717(h)(1)(D)? If "yes," attach the commissioner's rationale.

Applicant must answer "Yes" to a or b.

6. a. Is there a commitment by a responsible official in an eligible business for the creation or retention of private sector jobs and investment T.C.A. § 4-3-717(a)? If "yes," attach documentation.
- b. Has the commissioner of economic and community development determined that this investment will have a direct impact on employment and investment opportunities in the future T.C.A. § 4-3-717(a)? If "yes," attach the commissioner's rationale.



**TRAINING**

7. Will the grant support the training of new employees for locating or expanding industries T.C.A. § 4-3-717(c)(1)?  Yes  No
8. Will the grant support the retraining of existing employees where retraining is required by the installation of new machinery or production processes T.C.A. § 4-3-717(c)(2)?  Yes  No

**INFRASTRUCTURE**

9. Is the land to be improved publicly owned and not subject to a purchase option by a private entity where the purchase option covering the land may be exercised within a period of five (5) years following the date of the infrastructure grant? T.C.A. § 4-3-717(b)(2-3)?  Yes  No
10. Is this grant or loan made to a local government, a local government economic development organization or other political subdivision of the state T.C.A. § 4-3-717(d)(1)?  Yes  No
11. In determining the level of assistance for infrastructure and site preparation, was consideration given to local ability-to-pay with areas of lesser ability being eligible for higher grant rates T.C.A. § 4-3-717(f)?  Yes  No

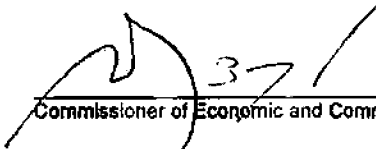
Applicant must answer "Yes" to a or b.

12. a. Will the grant or loan address infrastructure, such as, water, wastewater, transportation systems, line extensions, industrial site preparation or similar items where it is demonstrated that such improvements are necessary for the location or expansion of business or industry T.C.A. § 4-3-717(h)(2)?
- b. Has the commissioner of economic and community development determined the funds make significant technological improvements such as digital switches or fiber optic cabling that would have a beneficial impact on the economy of this state T.C.A. § 4-3-717(h)(2)? If "yes," attach the commissioner's rationale.

**ECONOMIC DEVELOPMENT**

13. Is this grant or loan made to a local government, a local government economic development organization or other political subdivision of the state T.C.A. § 4-3-717(d)(1)?  Yes  No
14. Is this grant or loan eligible for FastTrack infrastructure development or job training assistance funds T.C.A. § 4-3-717(d)(1)?  Yes  No
15. Will this grant or loan be used to facilitate economic development activities that include, but are not limited to, retrofitting, relocating equipment, purchasing equipment, building repairs and improvements, temporary office space or other temporary equipment related to relocation or expansion of a business T.C.A. § 4-3-717(d)(1)?  Yes  No
16. Will the funds be used in exceptional circumstances wherein the funds will make a proportionally significant economic impact on the affected community T.C.A. § 4-3-717(d)(1)? If "yes," attach an explanation of the exceptional circumstances and the proportionally significant economic impact.  Yes  No
17. The department of economic and community development is required to notify and provide the state funding board a detailed written explanation of the purpose for which this economic development grant or loan is being awarded or used T.C.A. § 4-3-717(d)(2). Attach documentation.

I have reviewed this document and believe it to be correct.

  
\_\_\_\_\_  
Commissioner of Economic and Community Development

2-16-19  
Date



February 18, 2015

Parkdale Mills, Inc.  
Mr. John Marr  
P.O. Box 1787  
Gastonia, North Carolina

Dear Mr. Marr,

Please sign and date the following, as this letter serves as notice that Parkdale Mills, Inc. intends, in good faith, to create 80 private sector jobs and make a capital investment of \$120,177,820 in Johnson County, Tennessee in exchange for incentives that will be memorialized in a grant agreement between Parkdale Mills, Inc. and the State of Tennessee.

Signature: \_\_\_\_\_

A handwritten signature in black ink, appearing to be 'Randy Boyd', written over a horizontal line.

Date: 2-18-15

Thank you,

A handwritten signature in black ink, appearing to be 'Randy Boyd', written below the text 'Thank you,'.

Randy Boyd, Commissioner, Tennessee Department of Economic and Community Development

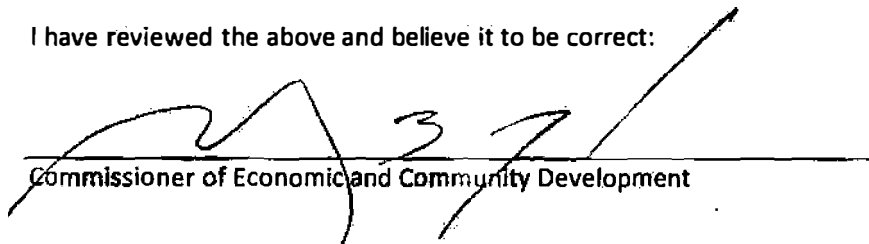
FastTrack Report to State Funding Board

2/19/2015

1. Previous FastTrack Balance, as of Last Report	132,755,719.42
2. + New Appropriations:	0.00
3. + Newly Deobligated Funds:	15,308,910.20
4. + Funds Transferred to FastTrack:	0.00
5. - Funds Transferred from FastTrack:	0.00
6. - FastTrack Grants or Loans Approved Greater Than \$750,000:	(23,100,000.00)
7. - FastTrack Grants or Loans Approved Less Than \$750,000:	(2,231,200.00)
8. Adjusted FastTrack Balance Available for Funding FastTrack Grants or Loans:	122,733,429.62
<hr/>	
9. Total Amount of Commitments:	105,890,552.54
<hr/>	
10. Uncommitted FastTrack:	16,842,877.08
11. Percentage Committed:	86.3%
<hr/>	
12. Amount of Proposed Grants or Loans:	4,000,000.00
13. Uncommitted FastTrack Balance if Proposed Grants or Loans Approved:	12,842,877.08
14. Percentage Committed:	89.5%

See next page for explanations of the above questions.

I have reviewed the above and believe it to be correct:



Commissioner of Economic and Community Development

Date: 2-19-15



**The PFM Group**

Public Financial Management, Inc.  
PFM Asset Management LLC  
PFM Advisors

Suite 160 901 682-8356  
530 Oak Court Drive 901 682-8386 fax  
Memphis, TN www.pfm.com  
38117-3722

February 18, 2015

Ms. Sandi Thompson  
Director of State and Local Finance  
State of Tennessee  
James K. Polk Building, Suite 1600  
Nashville, TN 37243

Dear Ms. Thompson:

Over the last several weeks, Tennessee (the "State") has been monitoring refunding opportunities for viability. The current low interest rate environment is advantageous for the State to pursue the refunding opportunities, as well as to finance new money projects. The State plans to issue tax-exempt and taxable refunding bonds to recognize interest rate savings, as well as issue bonds to finance new projects, referred to herein as the 2015 Bonds.

On February 3, 2015, Public Financial Management, Inc. ("PFM"), in its capacity as Financial Advisor to the State, released a Request for Cost Proposal ("RFC") to certain underwriters to solicit proposed costs associated with the pending issuance. The RFC was delivered to 7 underwriters chosen based upon their demonstration of attention to the State's financial goals and objectives: Morgan Stanley, Bank of America/Merrill Lynch, Citi, J.P. Morgan, Piper Jaffray, Raymond James, and Wells Fargo.

The State's cost of the anticipated financings will be comprised of the market interest rates that the underwriting syndicate is able to sell the bonds to their investors and the costs of issuance related to the bonds including the compensation negotiated with the underwriting syndicate. The takedown, or sales commission paid to the underwriting syndicate, is the largest variable component of the underwriters' compensation.

A summary of the average takedowns proposed by the underwriters in response to the RFC are included below:

Underwriter	Average Takedown	Management Fee	Total
Citi	\$0.45	\$0.00	\$0.45
J.P.Morgan	0.45	0.00	0.45
Bank of America/Merrill Lynch	0.69	0.00	<b>0.69</b>
Morgan Stanley	0.72	0.00	<b>0.72</b>
Piper Jaffray	0.75	0.00	0.75
Wells Fargo	1.00	0.00	1.00
Raymond James	1.50	0.10	1.60

Note: All are quoted on a "per bond" basis, where one bond is equal to \$1,000 in par.

While evaluating the responses, PFM considered the aggregate anticipated size of the 2015 Bonds, issued as either tax-exempt or taxable bonds, as well as the desire to quickly access the market. PFM recommends the State consider a team of underwriters led by a senior book-running manager who is a large, stable, well-prepared and a nationally-focused firm.

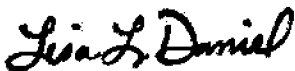
Based upon the above mentioned criteria, PFM recommends the State select Morgan Stanley to serve as the senior book-running manager for the 2015 Bonds.

Our recommendation is supported by Morgan Stanley's performance on the State's bond sale in 2014, their proven ability to market, distribute and underwrite bonds, their preparedness to move quickly and their proposed underwriting compensation. PFM also recommends that the underwriting syndicate include co-managers and selling group members. Once the size of the 2015 Bonds has been determined, PFM will work with the Office of State and Local finance to determine the appropriate number of and a recommendation for co-managers to support the offering of the 2015 Bonds.

We look forward to working with the State and the selected underwriting team to successfully complete the sale of the 2015 Bonds.

Sincerely,

PUBLIC FINANCIAL MANAGEMENT, INC



Lisa L. Daniel  
Managing Director



Lauren S. Lowe  
Director

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2015**

**New Issues**

**Book-Entry Only**

*This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**STATE OF TENNESSEE**

**\$100,000,000\***

**General Obligation Bonds, 2015 Series A**

**\$92,980,000\***

**General Obligation Bonds, 2015 Refunding Series B**

**\$37,445,000\***

**General Obligation Bonds, 2015 Refunding Series C (Federally Taxable)**

**Dated: Date of Delivery**

**Due: Series A Bonds – March 1 \_\_\_\_\_,  
Series B Bonds – \_\_\_\_\_,  
Series C Bonds – \_\_\_\_\_  
as shown on inside cover**

*The Bonds*

Series A Bonds interest is payable semi-annually March 1 and September 1, commencing September 1, 2015.

Series B Bonds interest is payable semi-annually \_\_\_\_ 1 and \_\_\_\_ 1, commencing \_\_\_\_ 1, 2015.

Series C Bonds interest is payable semi-annually \_\_\_\_ 1 and \_\_\_\_ 1, commencing \_\_\_\_ 1, 2015.

Interest rates and reoffering yields/prices as shown on inside front cover.

Fully registered bonds issued in denominations of \$5,000 or any integral multiple thereof.

The Bonds maturing on or after \_\_\_\_ 1, 20\_\_ are subject to optional redemption by the State on and after \_\_\_\_ 1, 20\_\_ at par.

See "The Bonds" herein.

*Security*

Direct general obligations; pledge of full faith and credit. See "Security for the Bonds" herein.

*Ratings*

Fitch: \_\_\_\_ Moody's: \_\_\_\_ S&P: \_\_\_\_ See "Ratings" herein.

*Book-Entry Only System*

The Depository Trust Company will act as securities depository for the Bonds. See "The Bonds" and "Appendix D – Book-Entry Only System" herein.

*Tax Exemption*

Interest on the Series A Bonds and Series B Bonds is excluded from gross income for Federal income tax purposes to the extent and subject to the conditions, limitations and continuing compliance with tax covenants as described herein. Interest on the Series C Bonds is included in gross income for Federal income tax purposes. The principal of and interest on the Bonds are exempt from Tennessee taxes, subject to certain exceptions. See "Tax Matters" herein.

*Issuer's Bond Counsel*

Hawkins Delafield & Wood LLP, New York, New York.

*The Bonds are offered when, as and if issued and received by the Underwriters subject to certain conditions, including the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the State of Tennessee. Certain legal matters in connection with the Bonds are subject to the approval of the Attorney General and Reporter of the State of Tennessee, as counsel to the State Funding Board. Certain legal matters will be passed upon for the Underwriters by \_\_\_\_\_, counsel to the Underwriters. The Bonds are expected to be available through the facilities of The Depository Trust Company on or about \_\_\_\_\_.*

\_\_\_\_\_, 2015

\*Subject to change

**MATURITIES, AMOUNTS, INTEREST RATES, PRICES/YIELDS  
AND CUSIP NUMBERS**

**STATE OF TENNESSEE  
\$100,000,000\*  
GENERAL OBLIGATION BONDS, 2015 SERIES A**

<u>Due March 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP** 880541</u>
2016	\$5,000,000				
2017	5,000,000				
2018	5,000,000				
2019	5,000,000				
2020	5,000,000				
2021	5,000,000				
2022	5,000,000				
2023	5,000,000				
2024	5,000,000				
2025	5,000,000				
2026	5,000,000				
2027	5,000,000				
2028	5,000,000				
2029	5,000,000				
2030	5,000,000				
2031	5,000,000				
2032	5,000,000				
2033	5,000,000				
2034	5,000,000				
2035	5,000,000				

**\$92,980,000\*  
GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES B**

<u>Due 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP** 880541</u>
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**\$37,445,000\*  
GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES C (FEDERALLY TAXABLE)**

<u>Due 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP** 880541</u>
------------------	---------------	--------------------------	--------------	--------------	---------------------------

\*\*These CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee, and are included solely for the convenience of the Bondholders. Neither the Underwriters nor the State of Tennessee is responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

## **THE FUNDING BOARD OF THE STATE OF TENNESSEE**

Bill Haslam, Governor, *Chairman*  
Justin P. Wilson, Comptroller of the Treasury, *Secretary*  
Tre Hargett, Secretary of State  
David H. Lillard, Jr., State Treasurer  
Larry B. Martin, Commissioner of Finance and Administration

### **STAFF**

Sandra Thompson, *Assistant Secretary to the Funding Board  
and Director of the Office of State and Local Finance*  
Ann V. Butterworth, *Assistant Secretary*  
Kayla Carr, *Bond Finance Manager*  
Cindy Liddell, *Bond Accountant, Office of State and Local Finance*

### **ISSUER'S COUNSEL**

Attorney General and Reporter of the State of Tennessee, Nashville, Tennessee

### **ISSUER'S BOND COUNSEL**

Hawkins Delafield & Wood LLP, Attorneys at Law, New York, New York

### **FINANCIAL ADVISOR**

Public Financial Management, Inc., Memphis, Tennessee



For the purpose of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an Official Statement of the State with respect to the Bonds that has been deemed "final" by the State as of its date except for the omission of no more than the information permitted by subsection (b)(1) of Rule 15c2-12.

This Official Statement does not constitute a contract or agreement between the State or the Underwriters and the purchasers or holders of any of the Bonds, or an offering of any security other than the Bonds specifically offered hereby. No dealer, broker or other person has been authorized by the State to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the State. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the State. Certain other information set forth herein has been obtained by the State from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In making an investment decision, investors must rely on their own examination of the State and the terms of the offering, including the merits and risks involved.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the respective Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

*IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE RESPECTIVE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.*

*NO REGISTRATION STATEMENT RELATING TO THE BONDS HAS BEEN FILED WITH THE SECURITIES EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES AGENCY. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.*

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# STATE OF TENNESSEE

\$100,000,000\*

GENERAL OBLIGATION BONDS, 2015 SERIES A

\$92,980,000\*

GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES B

\$37,445,000\*

GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES C (FEDERALLY TAXABLE)

## INTRODUCTION

This Official Statement, which includes the cover page and the inside cover page hereof, and the Appendices hereto, including the financial information incorporated by reference in Appendix A and the statistical information incorporated by reference in Appendix B, is provided for the purpose of presenting information relating to the State of Tennessee (the "State") in connection with the issuance of the State's \$100,000,000\* General Obligation Bonds, 2015 Series A (the "Series A Bonds"), \$92,980,000\* General Obligation Bonds, 2015 Refunding Series B, and \$37,445,000\* General Obligation Bonds, 2015 Refunding Series C (the "Series C Bonds", and collectively with the Series A Bonds and the Series B Bonds, the "Bonds").

The Bonds will be issued pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and laws of the State, including Title 9, Chapter 9, Tennessee Code Annotated, and various bond authorizations enacted by the General Assembly of the State, and pursuant to a resolution (the "Bond Resolution") adopted by the State Funding Board of the State on February 26, 2015. The Series A Bonds are being issued to (i) fund certain capital projects of the State, (ii) provide for the retirement at maturity of a portion of the State's outstanding general obligation commercial paper ("CP") issued to fund certain capital projects of the State, and (iii) fund certain costs of issuance of the Bonds. The Series B Bonds and Series C Bonds are being issued to (i) refund certain outstanding general obligation bonds and (ii) fund certain costs of issuance of the Bonds. See "Application of Bond Proceeds and Plan of Refunding."

The Bonds are direct general obligations of the State for which the State has pledged its full faith and credit for the payment of principal, premium, if any, and interest; and have a charge and lien upon all fees, taxes and other revenues and funds allocated to the State's general fund, debt service fund, and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. See "Security for the Bonds".

## THE BONDS

### Description

The Bonds will be dated the date of their delivery. The Series A Bonds will mature on March 1 as shown on the inside cover page and will bear interest payable semi-annually on March 1 and September 1, commencing September 1, 2015, at the rates per annum as shown on the inside cover page. The Series B Bonds will mature on \_\_\_ 1 as shown on the inside cover page and will bear interest semi-annually on \_\_\_ 1 and \_\_\_ 1, commencing \_\_\_ 1, 2015. The Series C Bonds will mature on \_\_\_ 1 as shown on the inside cover page and will bear interest semi-annually on \_\_\_ 1 and \_\_\_ 1, commencing \_\_\_ 1, 2015. The Bonds will be issuable as fully registered bonds in denominations of \$5,000 or integral multiples thereof.

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\*Subject to change

## Book-Entry Only System

Upon initial issuance, the Bonds will be available only in book-entry form. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of the Bonds of each series bearing interest at each interest rate, each in the aggregate principal amount of such maturity and bearing interest at such rate, will be registered in the name of Cede & Co. (DTC’s partnership nominee) and deposited with DTC. Beneficial owners of Bonds will not receive physical delivery of bond certificates, except under limited circumstances.

For a description of DTC and its book-entry only system, see “Appendix D – Book-Entry Only System”.

## Redemption\*

*Optional Redemption.* At the option of the State, the Bonds of each series maturing on or after \_\_\_\_\_ are subject to redemption prior to their respective stated maturities, from any monies that are available to the State for such purpose, at any time on and after \_\_\_\_\_ as a whole, or in part from time to time in any order of maturity determined by the State, at a redemption price of par, together with accrued interest to the redemption date.

*Selection of Bonds to be Redeemed.* If less than all of the Bonds of a maturity of a series are to be redeemed, the particular Bonds or portions thereof of such maturity to be redeemed shall be selected by lot.

In any such event, for so long as a book-entry only system is in effect with respect to the Bonds, DTC or its successor and Direct DTC Participants and Indirect DTC Participants (all as defined in Appendix D hereto) will determine the particular ownership interests of the Bonds of such maturity to be redeemed. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to make such determination as described above will not affect the sufficiency or the validity of the redemption of the Bonds. See “Book-Entry-Only System” and Appendix D “Book-Entry-Only System”.

*Notice of Redemption.* Written notice shall be mailed to registered owners of the Bonds to be redeemed, at least thirty (30) days prior to the redemption date, at the address that appears on the registration books, but failure to receive any such notice shall not affect the validity of the redemption proceedings. Any notice of redemption may provide that such redemption is conditional on the availability of sufficient moneys to pay the redemption price, plus interest accrued and unpaid to the redemption date. While DTC or its nominee is the registered owner of the Bonds, the State will give notice of redemption of the Bonds to DTC or its nominee or its successor and shall not be responsible for mailing notices of redemption to Direct DTC Participants, to Indirect DTC Participants or to the beneficial owners of the Bonds. Any failure of DTC or its nominee or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a beneficial owner of a bond of any redemption will not affect the sufficiency or the validity of the redemption of such bond. See Appendix D – “Book-Entry Only System”. The State can give no assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants will distribute such redemption notices to the beneficial owners of the Bonds, or that they will do so on a timely basis.

## APPLICATION OF BOND PROCEEDS AND PLAN OF REFUNDING

The Series A Bonds are being issued to (i) fund certain capital projects of the State, (ii) provide for the retirement at maturity of a portion of the State’s outstanding CP issued to fund certain capital projects of the State, and (iii) fund certain costs of issuance of the Bonds. CP will be retired on various dates within 90 days after the date of delivery of the Bonds.

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\*Subject to change

The Series B and Series C Bonds are being issued to (i) refund certain outstanding general obligation bonds, as indicated in the table below (the "Refunded Bonds") and (ii) fund certain costs of issuance of the Bonds. The refunding is being undertaken to realize debt service savings. *The actual general obligation bonds that will comprise the Refunded Bonds will be determined by the State at the time of sale of the Series B Bonds, based upon then-prevailing market conditions.*

**Refunded Bonds - Series B**

<b>Series</b>	<b>Maturity Date</b>	<b>Par</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
<b>2009A</b>	5/1/2028	\$ 14,575,000	5/1/2017	100%
	5/1/2029	14,575,000	5/1/2017	100%
		<u>\$ 29,150,000</u>		
<b>2010A</b>	5/1/2021	\$ 9,325,000	5/1/2018	100%
	5/1/2022	9,325,000	5/1/2018	100%
	5/1/2023	9,325,000	5/1/2018	100%
	5/1/2024	9,325,000	5/1/2018	100%
	5/1/2025	9,325,000	5/1/2018	100%
	<u>\$ 46,625,000</u>			
<b>2011A</b>	10/1/2024	\$ 12,770,000	10/1/2021	100%
	10/1/2025	12,770,000	10/1/2021	100%
		<u>\$ 25,540,000</u>		
<b>Total Refunded Bonds</b>		<u>\$ 101,315,000</u>		

**Refunded Bonds - Series C**

<b>Series</b>	<b>Maturity Date</b>	<b>Par</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
<b>2008B</b>	9/1/2022	\$ 765,000	9/1/2018	100%
	9/1/2023	765,000	9/1/2018	100%
	9/1/2024	765,000	9/1/2018	100%
	9/1/2028	3,060,000	9/1/2018	100%
	<u>\$ 5,355,000</u>			
<b>2009D</b>	5/1/2023	3,280,000	5/1/2019	100%
	5/1/2024	3,415,000	5/1/2019	100%
	5/1/2029	19,505,000	5/1/2019	100%
	<u>\$ 26,200,000</u>			
<b>Total Refunded Bonds</b>		<u>\$ 31,555,000</u>		

The Refunded Bonds will be called for redemption on the respective redemption dates and at the respective redemption prices as stated in the table above, plus accrued interest to the redemption date. Such designations for redemption will be irrevocable upon issuance of the Bonds.

Pursuant to the Bond Resolution authorizing the Bonds, the State Funding Board will enter into separate Refunding Trust Agreements with \_\_\_\_\_ (the "Refunding Trustee") with respect to the Refunded Bonds to be refunded by the Series B Bonds and Series C Bonds. Proceeds of the Series B Bonds or Series C Bonds, as applicable, and other available monies, if required, will be deposited into a refunding trust fund established under the respective Refunding Trust Agreement (each, a "Refunding Trust Fund") and a portion thereof used to acquire direct general obligations of or obligations the payment of principal of and interest on which is unconditionally guaranteed by the United States of America (the "Government Obligations"). The Government Obligations and the interest earned thereon will be sufficient and will be used, together with cash retained in the respective Refunding Trust Fund, to pay (i) the redemption prices of the respective Refunded Bonds on their redemption dates and (ii) the interest on the respective Refunded Bonds due on and prior to such redemption dates. The Government Obligations will be purchased from the Treasury Department of the United States of America or in the open market through a competitive bidding process. The State is required to deposit in the Refunding Trust Funds any additional amounts that may be necessary for any reason to enable the Refunding Trustee to pay the redemption price of and interest on the Refunded Bonds.

The State will obtain verification of sufficiency of the amounts and Government Obligations deposited in the Refunding Trust Funds for the Refunded Bonds, and of certain yields, from \_\_\_\_\_. (See "Verification Agent").

Upon issuance of the Bonds, the Refunded Bonds will be irrevocably designated for redemption as stated in the table above, plus accrued interest to the redemption date and provision will be made by the State in the Refunding Trust Agreement for the giving of notice of redemption of the Refunded Bonds. Written notice of any such redemption shall be mailed to the registered owners of the Refunded Bonds to be redeemed not less than (30) days prior to the redemption date. While DTC or its nominee is the registered owner of the Refunded Bonds, such notices will be sent to DTC and the State shall not be responsible for mailing notices of redemption to Direct DTC Participants or Indirect DTC Participants or to the Beneficial Owners of the Refunded Bonds.

**SOURCES AND USES OF FUNDS**

The proceeds of the Bonds are expected to be applied on the date of issue of the Bonds in the amounts as follows:

<b>Sources of Funds:</b>	<u>Series A Bonds</u>	<u>Series B Bonds</u>	<u>Series C Bonds</u>	<u>Total</u>
Par Amount				\$ -
Original Issue Premium				\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Uses of Funds:</b>				
Retirement of CP				\$ -
Capital Projects				\$ -
Deposit to Refunding Trust Fund				\$ -
Underwriters' Discount				\$ -
Costs of Issuance				\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## SECURITY FOR THE BONDS

### Sources of Payment and Security

The Bonds (as with all other State general obligation bonds and notes) constitute (a) direct general obligations of the State for the payment of the principal of and premium, if any, and interest on which there is also pledged the full faith and credit of the State; and (b) a charge and lien upon all fees, taxes and other revenues and funds allocated to the State's general fund, debt service fund, and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes.

The charge and lien on fees, taxes and other revenues in favor of the Bonds is subject to the specific pledge of "Special Taxes" in favor of State general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of (i) the annual proceeds of a tax of five cents (5¢) per gallon upon gasoline; (ii) the annual proceeds of a special tax of one cent (1¢) per gallon upon petroleum products; (iii) one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the State; and (iv) the annual proceeds of the franchise taxes imposed by the franchise tax law of the State. The Total Special Taxes collected, as reported for each year in the June monthly Statement of Revenue Collections (prepared on a cash basis) were as follows:

	Fiscal Year Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Special Taxes	\$ 1,010,572,000	\$ 963,834,000	\$ 944,979,000

Source: TN Department of Revenue

The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of Special Taxes will expire. The Bonds (as with all other State general obligation bonds issued after July 1, 2013, and notes) will not benefit from this specific pledge of Special Taxes.

The State covenants with the holders of the Bonds (and all persons who hold State general obligation bonds or notes) that it will raise fees, taxes and other revenues sufficient, together with funds on hand derived from all sources, to pay the principal of and premium, if any, and interest on the Bonds and all other general obligation bonds and notes of the State as and when due and payable. The State has also covenanted with the holders of State general obligation bonds outstanding as of July 1, 2013, not to decrease by legislative action the Special Taxes unless the State Funding Board certifies that the State is not in default in the payment of any outstanding debt and that Special Taxes at the decreased rates specified by the State Funding Board in such year or years (not to exceed two (2) years) will be sufficient to make all payments required to be made therefrom by the State on all of its obligations during the period that such decrease will be in effect.

The State is permitted by the State Constitution to levy ad valorem taxes on all of the taxable property within the State for the payment of the principal of and interest on the State's general obligation indebtedness; however, the State does not currently levy such a tax and has no current intent to do so.

All general obligation indebtedness of the State is secured on parity with all other general obligation indebtedness of the State, except that the Special Taxes secure only general obligation bonds outstanding on July 1, 2013. The State may issue, and currently is issuing as CP, general obligation bond anticipation notes, for the payment of which the full faith and credit of the State, but not Special Taxes, is pledged. See "State Indebtedness – Commercial Paper Program". In addition, the State is authorized to issue general obligation tax revenue anticipation notes, for the payment of which the full faith and credit of the State, but not Special Taxes, is pledged; however, the



State has not heretofore issued any such notes and has no current intent to do so. See “State Indebtedness – Tax Revenue Anticipation Notes”.

See “State Indebtedness” for the amounts of outstanding debt. For a table of annual debt service requirements for all general obligation bonds, see “State Indebtedness – Outstanding General Obligation Bonded Indebtedness”.

**Appropriations for Payment of General Obligation Debt Service**

Pursuant to Section 9-9-103, Tennessee Code Annotated, there is a continuing appropriation of a sum sufficient for payment of debt service (principal, interest and premium, if any) on general obligation bonds and notes from any funds in the State treasury not otherwise legally restricted, independent of an appropriation bill otherwise required by State law.

Section 67-6-103(a)(5), Tennessee Code Annotated, currently provides that 0.9185% of the sales and use tax collections is appropriated to the State Funding Board for the payment of principal and interest on the State’s general obligation bonds. This statutory provision subsequently may be changed or eliminated. The total sales and use tax collections and the amounts allocated to debt service for the last five fiscal years as reported in the State’s Annual Financial Reports were as follows (amounts have been rounded):

	<b>Total Sales and Use Tax Collections (Accrual Basis)</b>	<b>Allocation to Debt Service (Modified Accrual Basis)</b>
June 30, 2014	<b>\$7,276,443,000</b>	\$51,634,000
June 30, 2013	<b>7,018,128,000</b>	49,709,000
June 30, 2012	<b>6,884,762,000</b>	48,961,000
June 30, 2011	<b>6,461,461,000</b>	46,027,000
June 30, 2010	<b>6,170,977,000</b>	43,794,000

In accordance with the Governmental Accounting Standards Board’s Statement 44 “Economic Condition Reporting: The Statistical Section,” the total sales and use tax collections are reported on an accrual basis instead of on a modified accrual basis. However, the calculation of 0.9185% of the sales and use tax collections for allocation to debt service continues to be reported on a modified accrual basis. For a history of total sales and use tax collections and rates since Fiscal Year 2003, see the statistical data incorporated by reference in Appendix B.

**Remedies and Rights of Bondholders**

Each Bond when duly issued will constitute a contract between the State and the registered owner of the Bond. The State Funding Board shall certify to the Commissioner of Finance and Administration from time to time, but not less than annually, the amount necessary, together with funds on hand derived from all sources, to enable the State Funding Board to provide for the payment of the principal of and premium, if any, and interest on all general obligation indebtedness as and when the same shall become due and payable. Under Section 9-9-105(a), Tennessee Code Annotated, such indebtedness shall constitute a charge and lien upon the entire fees, taxes and other revenues and funds allocated to the general fund, the debt service fund and highway fund, and, if necessary the first monies thereafter received and allocated to the general fund, the debt service fund and the highway fund, except only such fees, taxes, revenues and funds as may be otherwise legally restricted, subject to the pledge of Special Taxes to general obligation bonds outstanding on July 1, 2013. Under Section 9-9-111, Tennessee Code Annotated, a holder of any general obligation bonds, including the Bonds, and notes has a vested right in the performance of the covenants and pledges contained in Title 9, Chapter 9, Tennessee Code Annotated, and the performance of the duties imposed on any officer or agency of the State by the provisions of Chapter 9 may be enforced by the holder of any general obligation bond or note by appropriate proceedings, provided that no holder of obligations issued after July 1, 2013, shall have any such rights with respect to the pledge of Special Taxes described above.

Under the State Constitution, public money may be expended only pursuant to appropriations made by law. See "State Finances." Such expenditures include, but are not limited to, the payment of debt service. Continuing appropriations exist under current law for the payment of debt service on the State's general obligation bonds, including the Bonds, from a specified percentage of sales and use taxes as discussed above. Furthermore, Section 9-9-103, Tennessee Code Annotated, appropriates to the State Funding Board on a direct and continuing basis a sum sufficient for payment of debt service (principal, interest and premium, if any) on outstanding general obligation bonds and other debt obligations (including notes) from any funds (including, with respect to bonds outstanding on July 1, 2013, Special Taxes) held in the State treasury not otherwise legally restricted, independent of an appropriation bill otherwise required by State law.

The State has not generally waived immunity from suit or extended its consent to be sued, although specific actions may be authorized, such as is described in the second preceding paragraph. Current state law provides that monetary claims against the State for breach of its contractual obligations and certain other causes may be heard and determined exclusively in the forum of the Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs. Whether a continuing appropriation exists for the payment of a claim in the Tennessee Claims Commission for unpaid debt service, if necessary in addition to other available remedies, is not clear. In any event sovereign immunity and other legal principles may bar actions to compel the General Assembly to appropriate monies for such payments.

**Additional Bonds Test**

The State, by Section 9-9-105(c), Tennessee Code Annotated, covenants with the persons who now or may hereafter hold any State general obligation bonds that no general obligation bonds shall be issued after July 1, 2013, unless the following debt service coverage test is satisfied: the amount necessary to pay the maximum annual debt service payable in the then current or any future fiscal year is not greater than ten percent (10%) of the amount of total state tax revenue allocated to the general fund, to the debt service fund, and to the highway fund for the immediately preceding fiscal year. For purposes of satisfying this test, "state tax revenues" are defined as those taxes, licenses, fees, fines, and permits collected by the department of revenue and allocated to the general fund, the debt service fund, and the highway fund excluding the portion of those taxes shared with local governments. "Debt service", for this purpose, means and includes the aggregate of the principal of and interest on all outstanding general obligation bonds and the general obligation bonds then proposed to be issued; provided, any outstanding bonds the payment of which has been fully provided for by funds or securities (including expected income therefrom), or both, set aside for that purpose are excluded in determining the outstanding bonds.

The State will comply with that additional bonds test as a condition of issuing the Bonds, as demonstrated by the following table:

(a) Maximum annual debt service		\$ 239,682,725*
(b) State tax revenue allocated for FYE June 30, 2014 to:		
General Fund	\$ 5,284,020,000 <sup>(1)</sup>	
Debt Service Fund	412,200,000 <sup>(1)</sup>	
Highway Fund	<u>678,022,000<sup>(1)</sup></u>	
(e) Total of State tax revenue allocated for FYE June 30, 2014		\$6,374,242,000*
(f) (a) divided by (e) expressed as a percentage (must be no greater than 10%)		3.76%

\* Includes estimated debt service for the Series A Bonds and assumes no change in debt service as a result of the issuance of the Series B and Series C Bonds and the refunding of the Refunded Bonds

(1) Obtained from the State of Tennessee Budget Document

## STATE INDEBTEDNESS

### General

The State Constitution forbids the expenditure of the proceeds of any debt obligation for a purpose other than the purpose for which it was authorized. Under State law, the term of bonds authorized and issued cannot exceed the expected life of the projects being financed. Furthermore, the amount of bonds issued cannot exceed the amount authorized by the General Assembly.

The procedure for funding State debt is provided by Chapter 9 of Title 9, Tennessee Code Annotated. The State Funding Board of the State of Tennessee is the entity authorized to issue general obligation indebtedness of the State. The State Funding Board is composed of the Governor, the State Comptroller of the Treasury, the Secretary of State, the State Treasurer, and the Commissioner of Finance and Administration. The State Funding Board issues all general obligation indebtedness in the name of the State pursuant to authorization by the General Assembly without concurrence or approval by any other governmental agency or by the electorate. Although the State Funding Board determines the terms of general obligation indebtedness, the interest rate on the general obligation indebtedness cannot exceed the Formula Rate which is defined in Section 47-14-102(6), Tennessee Code Annotated, as generally the lesser of (i) the average prime loan rate published by the Federal Reserve System plus 4% or (ii) 24%.

### Termination of Existence

The Governmental Entity Review Law provides for the termination of various governmental entities on specified dates. That date for the State Funding Board is June 30, 2016. The law also provides that if the General Assembly does not extend the termination date of an entity, the existence of the entity will continue for an additional year without any diminution, reduction or limitation of its powers. However, the State is required to preserve the rights of the holders of any outstanding indebtedness of the entity at the time of termination and the obligations and rights of such entity shall accrue to the State.

### Bonds

State law provides that the State may issue general obligation bonds for one or more purposes authorized by the General Assembly of the State. As of January 31, 2015, the State had \$1,828,850,000 (unaudited) of outstanding general obligation bonds, excluding the Bonds.

### Commercial Paper Program

Bond anticipation notes may be issued for purposes for which bonds have been authorized, if the notes are also authorized by legislative act. Notes have been authorized to be issued for the purposes of all existing bond authorizations.

In March 2000, the State instituted a commercial paper program for authorized capital projects. Commercial paper ("CP") has been and will be issued under the Commercial Paper Resolution, adopted by the members of the State Funding Board of the State on March 6, 2000, as amended, in a principal amount outstanding at any one time not to exceed \$350,000,000. CP constitutes bond anticipation notes and is a direct general obligation of the State for the payment of which, as to both principal and interest, the full faith and credit of the State, but not Special Taxes, are pledged.

The State has entered into a Standby Commercial Paper Purchase Agreement (the "Standby Agreement") with the Tennessee Consolidated Retirement System ("TCRS") under which TCRS is obligated to purchase newly issued CP, issued to pay the principal of other CP, subject to suspension or termination upon the occurrence of certain events. The Standby Agreement requires that the principal amount of CP maturing on any day shall not exceed \$100,000,000 or such greater principal amount as agreed upon by the State and TCRS.

CP may have varying maturities of not more than 270 days from their respective dates of issuance; provided, however, that no CP shall mature on a business day that will permit rollover purchased CP to be issued and mature on a business day that is not later than one business day prior to the stated expiration date of the Standby Agreement without regard to any early termination of the Standby Agreement. Currently, this date is July 1, 2016. CP is not subject to redemption prior to maturity.

As of January 31, 2015, \$107,686,000 (unaudited) principal amount of CP was outstanding under this program. The Series A Bonds will retire approximately \$70,000,000 of CP.

**Tax Revenue Anticipation Notes**

The State is authorized to issue general obligation tax revenue anticipation notes ("TRANs") in anticipation of the receipt of tax revenues in the then current fiscal year of the State. The State Constitution prohibits the issuance of debt for operating purposes maturing beyond the end of a fiscal year. Accordingly, any TRANs issued in a fiscal year must be repaid by the end of the same fiscal year. TRANs, if issued, will constitute direct obligations of the State for the payment of which, as to principal and interest, the full faith and credit of the State, but not Special Taxes, are pledged. See "Security for the Bonds". The State has not heretofore issued TRANs and has no current intent to do so.

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**Outstanding General Obligation Bonded Indebtedness**

As of January 31, 2015, there were \$1,828,850,000 (unaudited) State general obligation bonds outstanding, excluding the Bonds.

The annual debt service requirements for the outstanding long-term general obligation bonded indebtedness following the issuance of the Bonds are as follows:

**LONG-TERM GENERAL OBLIGATION BONDED DEBT SERVICE**

Fiscal Year Ending (6/30)	<u>Outstanding Debt Service *</u>			<u>Less Refunded Debt Service</u>			<u>Plus Debt Service on the Bonds</u>			<u>Total Debt Service</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 56,835,000	\$ 39,538,977	\$ 96,373,977							\$ 56,835,000	\$ 39,538,977	\$ 96,373,977
2016	151,825,000	73,795,225	225,620,225							151,825,000	73,795,225	225,620,225
2017	145,965,000	67,247,982	213,212,982							145,965,000	67,247,982	213,212,982
2018	137,270,000	60,497,132	197,767,132							137,270,000	60,497,132	197,767,132
2019	127,975,000	54,684,105	182,659,105							127,975,000	54,684,105	182,659,105
2020	124,960,000	49,230,000	174,190,000							124,960,000	49,230,000	174,190,000
2021	118,140,000	43,862,963	162,002,963							118,140,000	43,862,963	162,002,963
2022	118,310,000	38,566,988	156,876,988							118,310,000	38,566,988	156,876,988
2023	110,615,000	33,455,886	144,070,886							110,615,000	33,455,886	144,070,886
2024	110,350,000	28,907,473	139,257,473							110,350,000	28,907,473	139,257,473
2025	101,740,000	24,849,282	126,589,282							101,740,000	24,849,282	126,589,282
2026	100,955,000	20,626,670	121,581,670							100,955,000	20,626,670	121,581,670
2027	92,800,000	16,725,233	109,525,233							92,800,000	16,725,233	109,525,233
2028	88,645,000	13,187,359	101,832,359							88,645,000	13,187,359	101,832,359
2029	81,665,000	9,359,504	91,024,504							81,665,000	9,359,504	91,024,504
2030	56,290,000	5,894,181	62,184,181							56,290,000	5,894,181	62,184,181
2031	45,095,000	3,724,871	48,819,871							45,095,000	3,724,871	48,819,871
2032	35,765,000	1,823,905	37,588,905							35,765,000	1,823,905	37,588,905
2033	12,550,000	798,750	13,348,750							12,550,000	798,750	13,348,750
2034	5,550,000	416,250	5,966,250							5,550,000	416,250	5,966,250
2035	5,550,000	138,750	5,688,750							5,550,000	138,750	5,688,750
	<b>\$1,828,850,000</b>	<b>\$587,331,486</b>	<b>\$2,416,181,486</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,828,850,000</b>	<b>\$587,331,486</b>	<b>\$2,416,181,486</b>

\* As of January 31, 2015

## Authorized and Unissued Bonds

The State had authorized as of January 31, 2015, \$1,595,785,204 of general obligation bonds that have not been issued, including the Bonds and excluding an additional amount not to exceed 2.5% of certain authorized amounts to be used for funding discounts and the cost of issuance at the discretion of the State Funding Board. Of such authorized and unissued authorization, \$645,000,000 is for highway improvements. Since 1977, highway construction has been funded with current revenue and no general obligation bonds or CP have been issued for this purpose, but the State can give no assurance that this practice will continue. In addition, \$175,200,000 of the authorized and unissued authorization is allocated to the Tennessee transportation infrastructure improvement bond program, which is for the repair, replacement or rehabilitation of bridges. The State does not anticipate issuing general obligation bonds or CP for this program. Bonds for highway improvements and for the Tennessee transportation infrastructure improvement program are authorized for contractual purposes and authorizations are canceled when construction projects are completed.

## Rate of Debt Retirement Prior to Refunding

The following table sets forth the rate of scheduled debt retirement of the State on all outstanding general obligation bonds as of June 30, 2014, excluding the Bonds.

<u>Principal Amount Due Within</u>	<u>Principal Amount</u>	<u>% of Total</u>
5 Years	\$ 692,855,000	38.11%
10 Years	1,247,455,000	68.62%
15 Years	1,689,860,000	92.95%
19 Years	1,817,950,000	100.00%

## STATE FINANCES

### The Budget Process

The State of Tennessee Budget ("Budget Document") originates in the executive branch with the Governor's annual budget recommendation to the General Assembly. Initially, budget preparation instructions are issued by the Department of Finance and Administration to all State agencies and departments. These instructions describe the Administration's guidelines related to continuing the current level of service (baseline budget) and proposed cost increase requests. The instructions are to be used by agencies and departments in preparing their budgets for submission to the Department of Finance and Administration in October of each year.

During the fall, each department's budget request is reviewed, and requests for cost increases are analyzed by the Department of Finance and Administration. Conferences are held with departmental and agency representatives, the Director of Budget, and the Department of Finance and Administration staff to determine which, if any, of the proposals should be recommended.

During the 1997 legislative session, the Office of Legislative Budget Analysis was created to enable the General Assembly to strengthen its expertise in governmental budgeting and financing and in making public policy decisions. The office was created as an independent department of the legislature working for both the Senate and the House of Representatives and charged with reviewing and analyzing the State's budget and overall financial condition. The staff summarizes and analyzes the Governor's budget proposal for members of the General Assembly, secures budget justification data from the various state agencies, provides recommendations on budget proposals and provides assistance on financial matters to the standing committees, as directed.

Under State law, the Governor submits the recommended budget to the General Assembly at the start of the legislative session. The Budget Document must be presented to the General Assembly prior to February 1 of each year, except that a Governor in the first year of a four-year term of office must present a budget prior to March 1 of

that year. However, the General Assembly may extend these deadlines by joint resolution. Subsequently, the Governor submits a General Appropriation Bill and bond authorization bills containing appropriations and general obligation bond authorizations required to finance the program levels and capital outlay proposed in the Governor's budget. Throughout the legislative session, the Finance, Ways and Means Committees and appropriate standing committees of the House and Senate hold budget hearings for each department to determine if changes should be made to the General Appropriation Bill and general obligation bond authorizations. After review and consideration, the Finance, Ways and Means Committees report on the General Appropriation Bill and bond authorization bills, with any committee amendments, to the House of Representatives and Senate for action.

**Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorization is the General Appropriation Act as approved by the General Assembly and signed by the Governor. These appropriations are generally limited to a one-year period of availability. The General Appropriation Act requires both a simple majority vote of the House and a simple majority vote of the Senate. Approval of the General Appropriation Bill usually occurs during the last week of the legislative session. Once signed by the speaker of each House of the General Assembly, the General Appropriation Act is sent to the Governor for signature. If the Governor does not act within ten days, excluding Sundays, the General Appropriation Act becomes law without signature. The Governor may reduce or eliminate specific line items in the General Appropriation Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a vote of a majority of the members elected to each House of the General Assembly.**

Appropriations also may be included in legislation other than the General Appropriation Act. The individual bills containing appropriations must be heard by the Finance, Ways and Means Committee, and may be heard by the relevant standing committee, in each House of the General Assembly. After all related committees recommend passage, bills containing appropriations must be approved by a majority vote in each House of the General Assembly and must be acted upon by the Governor. Bills of this character are also subject to reduction or elimination by individual line-item veto by the Governor, subject to further override by the General Assembly as described above.

Budgets and appropriations may be revised and amended from time-to-time during a fiscal year for a variety of reasons, including to assure that the fiscal year ends with a balanced budget. Consequently, there can be no assurance that the current fiscal year 2014-2015 or the proposed fiscal year 2015-2016 budget will not be subsequently amended.

Funds necessary to meet an appropriation need not be in the Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

### **Development of Revenue Estimates**

The development of the general fund revenue estimates begins with a forecast of national economic activity for the State budget period. The State currently contracts with The University of Tennessee Center for Business and Economic Research ("UT-CBER") to prepare an annual Economic Report to the Governor containing short-term business cycle-sensitive forecasts as well as longer-term or trend forecasts for the year and to prepare quarterly updates throughout the year. UT-CBER subscribes to the macroeconomic forecasting services of Global Insight. The Global Insight forecast becomes the principal input to the Tennessee Econometric Model which is utilized to develop a forecast of similar indicators of in-state activity.

At least annually, the State Funding Board secures from UT-CBER the estimated rate of growth of the State's economy as measured by the forecasted change in Tennessee personal income. The State Funding Board reviews the estimated rate of growth in Tennessee personal income and reports to the General Assembly its comments relating to the reasonableness of the estimate, including any different estimate deemed necessary.

The State Funding Board is further directed by statute to conduct public hearings to develop consensus ranges of estimates of State revenue for the current fiscal year and the next succeeding fiscal year. At the hearings, representatives of state higher education institution business centers, including UT-CBER, present revenue estimates and economic forecasts. The State Funding Board also hears from representatives from the Department of Revenue and the Fiscal Review Committee of the State. On December 1, or as soon thereafter as practical, the State Funding Board presents its consensus ranges of State revenue estimates, and a summary of the economic forecast on which the estimates are based, to the Governor and the Chairs of the Senate and House Finance, Ways and Means Committees. Although not mandated prior to final legislative action on the budget, the State Funding Board may receive updated estimates and forecasts at public hearings in the spring and may forward any revision to prior estimates and the reasons therefor to the Governor and Chairs of the Senate and House Finance, Ways and Means Committees. Pursuant to Section 9-4-5104, Tennessee Code Annotated, the Commissioner of Finance and Administration has the responsibility for preparing the revenue estimates presented in the Budget Document.

**Reserve for Revenue Fluctuations**

In 2013, the General Assembly enacted legislation re-determining the allocation goal for the reserve for revenue fluctuations (the "Reserve" or "Rainy Day Fund") to be eight percent of estimated State tax revenues to be allocated to the general fund and education trust fund. Beginning with the budget for the Fiscal Year 1998-1999 the allocation goal had been five percent. Until the redetermination funding level is achieved, the Governor is to budget an allocation to the Reserve in an amount at least equal to ten percent of the estimated growth in estimated State tax revenues to be allocated to the general fund and education trust fund. Amounts in the Reserve may be utilized to meet State tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of \$100 million or one-half (1/2) of the amount available in the Reserve may be used by the Commissioner of Finance and Administration to meet expenditure requirements in excess of budgeted appropriation levels. Prior to using any amounts in the Reserve for this purpose, the Commissioner shall notify the Secretary of the State Funding Board and the Chairs of the Finance, Ways and Means Committees of the Senate and the House of Representatives that the Reserve funds are to be used for this purpose. The Commissioner shall report information concerning the need to utilize these funds to the various committees.

The Reserve balance at the end of each of fiscal years 2010 through 2014, the estimated balance for fiscal year 2015 and the projected balance at the end of the 2016 fiscal year, respectively, are as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Balance</u>
June 30, 2010	453,100,000
June 30, 2011	283,600,000
June 30, 2012	306,000,000
June 30, 2013	356,000,000
June 30, 2014	456,000,000
June 30, 2015	491,500,000*
June 30, 2016	528,000,000**

\* Estimated and unaudited  
 \*\*Projected

The Reserve is budgeted to increase by \$35.5 million for the fiscal year ending June 30, 2015 and proposed to increase by an additional \$36.5 million for the fiscal year ending June 30, 2016. The statutory goal is for the Reserve to be 8% of estimated State tax revenues to be allocated to the general fund and education trust fund. The State can give no assurance that the budgeted increase in the Reserve for fiscal years ending June 30, 2015 will be achieved. See "STATE FINANCES - Financial Information and Budget Summary for Fiscal Years 2014-2015 and 2015-2016".



## **Budgeting for Authorized and Unissued Debt**

The State's current practice is to annually budget for five percent of all authorized and unissued general obligation bonds, including bonds authorized and not expected to be issued as described in "Authorized and Unissued Bonds" above, to account for assumed principal redemption (on the basis of an assumed 20-year, level-principal issue), plus an amount for assumed interest at a rate of six percent annually. The State cannot offer any assurance that it will continue this practice in the future.

## **Financial Control Procedures**

The State Constitution requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligation, for that year.

Generally, the executive branch controls the expenditure of State funds for the operation of State government. Two important concepts are involved in the execution of the General Appropriation Act: preparation of work programs and development of allotment controls. Analysts of the Division of Budget, Department of Finance and Administration, and fiscal personnel in the various State departments and agencies have the responsibility of reconciling the General Appropriation Act, as approved, with the submitted budget. State law requires that administrative agencies prepare a work program for each fiscal year. These work programs indicate separate annual spending requirements for payroll and other operating expenses necessary to carry out agency programs. The head of any agency may revise the work program during the fiscal year because of changed conditions and submit such revision for approval. If the Commissioner of Finance and Administration and the Governor approve the revision, then the same procedure for review, approval and control is followed as in making the original allotments. The aggregate of all allotments after the revision cannot exceed the total appropriations made to the agency for the fiscal year in question.

All expenditures of State administrative agencies are processed through the Department of Finance and Administration and are measured against work program allotments. Savings which may occur as a result of the difference between the amounts provided in the work program allotments for payroll and other operating expenditures and the amounts actually spent for those expenditures accumulate throughout the fiscal year unless a work program is revised to re-allot unspent amounts. Likewise, departmental revenue surpluses cannot be spent until approved by the Commissioner of Finance and Administration and, in some cases, reviewed by the Finance, Ways and Means Committees of the General Assembly. Such central spending control offers executive flexibility relative to any anticipated surplus or shortfall in the budget.

The Governor may effect spending reductions to offset unforeseen revenue shortfalls or unanticipated expenditure requirements for particular programs. These spending reductions can take the form of deferred equipment purchases, hiring freezes, and similar cutbacks. If necessary, the Governor may reduce portions of administrative budgets prior to allotment. Furthermore, the Governor is authorized to call special sessions of the General Assembly at any time to address financial or other emergencies.

TRANS may be issued to fund operating expenses. However, the State has not heretofore issued TRANS and has no current intent to do so. See "State Indebtedness - Tax Revenue Anticipation Notes" above for a description of restrictions on issuance of TRANS for this purpose.

## **Financial Information and Budget Summary for Fiscal Years 2014-2015 and 2015-2016**

### *Financial Information*

Acting upon the State Funding Board's December 16, 2014, consensus recommendation (see "Revenue Growth" below), a revised revenue estimate was submitted to the General Assembly on February 9, 2015, in the Budget Document, which increased the total budgeted revenue estimate by \$37.3 million for fiscal year 2014-2015. The estimate for General Fund taxes was reduced by \$3.8 million to reconcile with legislation enacted in 2014. The proposed budget recognizes a growth in total taxes of \$328.5 million, or 2.53%, for fiscal year 2015-2016. The general fund is projected to grow by \$303.2 million which is 3.0% above the current year estimate.

*Revenue Growth*

The State Funding Board met on December 11, 2014, to hear and discuss updates on economic and revenue projections for the remainder of fiscal year 2014-2015 and to project revenue estimates for fiscal year 2015-2016. The State Funding Board reconvened on December 16, 2014, and adopted the following revised consensus tax revenue growth projections for the 2014-2015 Fiscal Year (growth measured against actual results for the 2013-2014 Fiscal Year, as set forth in the following table) and for the 2015-2016 Fiscal Year (growth measured against the potential range of results for the 2014-2015 Fiscal Year, as set forth in the following table):

	<u>Fiscal Year 2013-2014 Results</u>	<u>Fiscal Year 2014-2015</u>		<u>Fiscal Year 2015-2016</u>	
		<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Total State Taxes	\$11,744,711,100	3.45%	3.80%	2.55%	2.95%
General Fund Only	\$ 9,744,409,900	3.85%	4.20%	2.60%	3.00%

The State Funding Board is scheduled to convene in December 2015 to hear and discuss updates on economic and revenue projections for the remainder of fiscal year 2015-2016 and to project revenue estimates for fiscal year 2016-2017. The Board may schedule additional meetings at its discretion.

On an accrual basis, January is the sixth month of fiscal year 2014-2015. Total state tax collections for the six months (August through January) were \$343.9 million above the budgeted estimate, and the general fund was over collected by \$323.4 million. The four other funds that share tax revenue proceeds were over collected by \$20.5 million. Collections through January are above the revised estimate proposed in the 2015-2016 Budget Document. Reserves are available as an additional hedge against a revenue shortfall. The Rainy Day Fund balance is estimated to be \$491.5 million at June 30, 2015 and projected to be \$528.0 million at June 30, 2016. See “State Finances – Reserve for Revenue Fluctuations”.

*Fiscal Year 2015-2016 Budget Summary*

The fiscal year 2015-2016 recommended budget is based on a growth rate in total taxes of 2.53%. General Fund recurring cost increases total \$511 million, much of which is used to fund salary and benefits, program and inflationary growth in TennCare, the Basic Education Program, and Higher Education. For the budget to remain balanced, State programs are reduced by an average of 3.5% for a total of \$198.9 million. As proposed, recurring appropriations are funded by recurring revenues. The Rainy Day Fund balance is budgeted to increase to \$528 million after an additional deposit of \$36.5 million.

The capital budget for fiscal year 2015-2016 is as follows:

State Current Funds	\$ 54,805,000
Federal Funds	9,975,000
General Obligation Bonds (excl. Hwy. Imp.)	437,610,000
Highway Improvement Bonds	83,800,000
Other Miscellaneous Funds	63,780,500
Facilities Revolving Fund	55,680,000
Total	<u>\$705,650,500</u>

Bonds have not been issued for highway improvements since 1977, and there is no current intent to do so at this time. Bonds for highway improvements and for the Tennessee transportation infrastructure improvement program are authorized for contractual purposes and authorizations are canceled when construction projects are completed.

## TennCare Program

The TennCare Medicaid expansion program was launched in 1994. The TennCare program operates under a Section 1115 waiver from the Centers for Medicare and Medicaid Services (CMS) in the United States Department of Health and Human Services as a managed care program. Medicaid waiver programs are time-limited. The waiver under which TennCare is now operating began on July 1, 2002, and has been extended through June 30, 2016.

TennCare services are offered through managed care entities. Medical, behavioral and long-term care services are covered by "at risk" Managed Care Organizations ("MCO") in each region of the State. Enrollees have their choice of MCOs serving the areas in which they live, except that some enrollees are assigned to TennCare Select. TennCare Select is a managed care plan for certain populations such as children in State custody and enrollees who may be living temporarily out-of-state. In addition to the MCOs, there is a pharmacy benefits manager for coverage of prescription drugs and a dental benefits manager for provision of dental services to children under age 21. Coordination of care is the responsibility of the enrollee's primary care provider in his or her MCO. Long-term care services are provided in nursing facilities for elderly persons and in intermediate care facilities for persons with intellectual or developmental disabilities, as well as by home and community based services providers. These services had been "carved out" of TennCare and paid for by the State through a fee-for-service arrangement. However in 2010, the State implemented the TennCare "CHOICES in Long-Term Care Program" which brought long-term care services for persons who are elderly and physically disabled into the managed care program.

The Bureau of TennCare within the Tennessee Department of Finance and Administration is the State agency charged with the responsibility for administering the TennCare program. In addition to overseeing the contracts with the managed care entities and overseeing the long term care program, the Bureau of TennCare is responsible for payment of Medicare premiums, deductibles, and/or coinsurance for certain low-income Medicare beneficiaries.

The TennCare program currently has approximately 1.33 million enrollees consisting of approximately 790,000 children and approximately 540,000 adults. For fiscal year 2015-2016, the State budgeted for a 3.0% increase in costs associated with enrollment and medical utilization charges and a 10.0% increase in pharmacy expense growth. The proposed fiscal year 2015-2016 TennCare budget is \$10.28 billion, including federal funds, and is 30.8% of the total State budget. Excluding federal funds, the cost of the TennCare program is budgeted to be 23.1% of the total State tax collections.

In fiscal year 2006, TennCare reforms were implemented. The table below depicts the rate of growth or reduction in the TennCare budget since fiscal year 2007.

**TennCare Budget Growth\***  
(in millions)

FY 2007	78.9
FY 2008	59.3
FY 2009	(103.0)
FY 2010	(214.8)
FY 2011	(166.0)
FY 2012	117.2
FY 2013	68.8
FY 2014	367.9**
FY 2015	(18.5)***
FY 2016	37.8

\* Recurring appropriations, which exclude enhanced Federal Medical Assistance Percentage savings, hospital coverage assessment, and other non-recurring funds.

\*\* The FY 2014 growth figure reflects some notable increases related to the Affordable Care Act. \$121 million was added for the eligible but not enrolled population and the new health insurance tax. Also, \$46 million was required to compensate for the reduction in Tennessee’s federal match rate. Other one time increases totaling \$63 million reflected changes from non-recurring funding to recurring funding sources for the pharmacy program, Medicare crossover costs and funding the State’s Standard Spend Down program. Increased costs related to ongoing program growth totaled \$93 million which represented a modest increase of 3.5%. Program growth costs include increases in enrollment, as well as medical and behavioral health service utilization. An increase of \$44.9 million was due to other related programs.

\*\*\*The FY 2015 reduction is due to the treatment of Nursing Home Assessment fees as non-recurring

In fiscal year 2014-2015, the TennCare Reserve is anticipated to be \$306.9 million and is equal to 9.3% of the State funds contributed to the TennCare program. Historically, the TennCare Reserve was \$306.9 million in fiscal year 2013-2014, \$306.9 million in fiscal year 2012-2013; \$115.6 million in fiscal year 2011-2012; \$234.7 million in fiscal year 2010-2011; and \$442 million in fiscal year 2009-2010. The TennCare Reserve is not statutorily required and there can be no assurance that the TennCare Reserve will be available for use in the TennCare program.

**Federal Funding of Certain Programs**

Approximately 38% of the State budget is funded by federal aid. The U.S. Budget Control Act of 2011 (U.S. Public Law 112-25) (the “Budget Control Act”) establishes mechanisms to restrain federal spending and decrease the projected federal deficit through the year 2021. Automatic across-the-board reductions in federal programs originally were scheduled to occur on January 2, 2013, but were delayed until March 1, 2013, by the American Taxpayer Relief Act of 2012 (U.S. Public Law 112-240). Some major programs are held harmless and not subject to the across-the-board reduction. The held-harmless programs include Medicaid (TennCare), Children’s Health Insurance program (CoverKids), Temporary Assistance for Needy Families, Supplemental Nutritional Assistance program (formerly Food Stamps), and various food and nutrition programs, foster care and adoption assistance, and various highway and transportation programs. An estimated 87% of federal aid to the State of Tennessee was not subject to the across-the-board reduction. In the 13% of federal aid that was subject to reduction, the State reduced budgeted expenditures from federal aid sources by \$71.8 million in 242 programs. Of the \$71.8 million reduced, 51% of the reduction occurred in K-12 Education (\$36.3 million). The Department of Health was reduced \$12.7 million (18% of the total). The balance of the reductions occurred in other departments. In all instances, State funds were not used to replace a reduction in federal funding. To maintain a balanced budget, program budgets were adjusted accordingly. The Bipartisan Budget Act of 2013 (U.S. Public Law 113-67) raised the sequestration spending caps in federal fiscal years 2014 and 2015 while also extending the imposition of sequestration spending caps beyond 2021 to federal fiscal year 2023. As a result, there are no additional

sequestration reductions of federally funded programs in state fiscal years 2014-2015 or 2015-2016. The State will continue to monitor Congressional action on federal aid appropriations to assess fiscal impacts to the State budget.

**Sources and Uses of Funds**

The following tables compare sources and uses of funds for fiscal years 2014-2015 and 2015-2016:

**2014-2015 Enacted Budget Compared to  
2015-2016 Estimated Budget  
Sources of Funds  
As of June 30, 2015**

	<b>Enacted Budget FY 2014-2015</b>	<b>Estimated Budget FY 2015-2016</b>	<b>Difference</b>
<b>Tax Revenue - Revised Estimate</b>			
Sales and Use Taxes	\$ 7,612,100,000	\$ 7,893,200,000	\$ 281,100,000
Other Taxes - DOR	4,526,800,000	4,589,900,000	63,100,000
Other Miscellaneous Revenues	1,912,434,600	1,991,275,800	78,841,200
Tobacco Funds	134,600,000	132,100,000	(2,500,000)
Lottery for Education Funds	335,700,000	346,600,000	10,900,000
Debt Service Fund Transfer	72,000,000 *	-	(72,000,000)
Reserve Transfers and Adjustments	235,255,300 *	144,957,800 *	(90,297,500)
Reversion - Overappropriation	87,714,900 *	86,807,800 *	(907,100)
Rainy Day Fund Transfer	<u>(35,500,000) *</u>	<u>(36,500,000) *</u>	<u>(1,000,000)</u>
<b>Sub-Total Appropriations</b>	<b><u>\$ 14,881,104,800</u></b>	<b><u>\$ 15,148,341,400</u></b>	<b><u>\$ 267,236,600</u></b>
Federal Funds	13,156,472,800	12,782,917,100	(373,555,700)
Current Services and Other Revenues	3,095,168,300	3,197,350,000	102,181,700
Tuition and Student Fees	1,689,782,900	1,689,782,900	-
Bonds	<u>167,600,000</u>	<u>521,410,000</u>	<u>353,810,000</u>
<b>Total</b>	<b><u>\$ 32,990,128,800</u></b>	<b><u>\$ 33,339,801,400</u></b>	<b><u>\$ 349,672,600</u></b>
* Reserves, Transfers and Reversion	\$ 359,470,200	\$ 195,265,600	\$ (164,204,600)

**2014-2015 Enacted Budget Compared to  
2015-2016 Estimated Budget  
Uses of Funds  
As of June 30, 2015**

	<b>Enacted Budget FY 2014-2015</b>	<b>Estimated Budget FY 2015-2016</b>	<b>Difference</b>
General Government	\$ 978,436,400	\$ 1,045,295,100	\$ 66,858,700
Education	9,667,415,000	9,784,012,200	116,597,200
Health and Social Services	15,554,658,200	15,445,350,400	(109,307,800)
Law, Safety, and Correction	1,677,180,100	1,661,454,000	(15,726,100)
Resources and Regulation	931,338,400	887,866,100	(43,472,300)
Business and Economic Development	<u>616,564,300</u>	<u>554,913,000</u>	<u>(61,651,300)</u>
<b>Total General Fund</b>	<b><u>29,425,592,400</u></b>	<b><u>29,378,890,800</u></b>	<b><u>(46,701,600)</u></b>
Transportation	1,839,885,800	1,816,308,500	(23,577,300)
Debt Service Requirements	377,714,000	429,855,000	52,141,000
Capital Outlay Program	237,590,000	566,170,500	328,580,500
Facilities Revolving Fund	165,546,600	179,576,600	14,030,000
Cities and Counties - State Shared Taxes	<u>943,800,000</u>	<u>969,000,000</u>	<u>25,200,000</u>
<b>Total State Budget All Programs</b>	<b><u>\$ 32,990,128,800</u></b>	<b><u>\$ 33,339,801,400</u></b>	<b><u>\$ 349,672,600</u></b>

## Investment Policy

The State Funding Board is charged with the establishment of policy guidelines for the investment of State funds. The State Treasurer is responsible for the management of the State Pooled Investment Fund ("SPIF") (which includes the State's cash, various dedicated reserves and trust funds of the State, and the Local Government Investment Pool) and the Intermediate Term Investment Fund (ITIF), a longer term investment option.

The primary investment objective for the SPIF is safety of principal, followed by liquidity and yield. No investments may be purchased with a remaining maturity of greater than 397 calendar days and the weighted average maturity cannot exceed 120 days. Investment instruments authorized by the Investment Policy for the SPIF approved by the State Funding Board pursuant to Section 9-4-602, Tennessee Code Annotated, for purchase by the SPIF include (1) bonds, notes and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies; (2) repurchase agreements for obligations of the United States or its agencies; (3) certificates of deposit in banks and savings and loan associations recognized as state depositories pursuant to Section 9-4-107, Tennessee Code Annotated; provided, however, certificates of deposit shall be collateralized in accordance with the provisions of Tennessee Code Annotated; (4) prime commercial paper that is rated in the highest category by at least two nationally recognized commercial paper rating agencies; (5) prime bankers' acceptances that are eligible for purchase by the Federal Reserve System; and (6) securities lending agreements whereby securities may be loaned for a fee; provided, however, eligible collateral as defined in Section 9-4-103, Tennessee Code Annotated, whose market value is at least equal to one hundred two percent (102%) of the market value of the borrowed securities shall be required for each loan and for purposes of this provision, eligible collateral shall include cash collateral, which shall be equal to at least one hundred percent (100%) of the market values of the borrowed securities. For each type of investment, certain terms and conditions must be met. All book entry securities purchased are held by the Federal Reserve Bank in the State Trust of Tennessee Account, or held by a custodian pursuant to a custodian agreement. Securities not eligible for book entry at the Federal Reserve Bank are held by a custodian pursuant to a custodian agreement.

The ITIF portfolio is intended to be a longer-term investment option to the SPIF. The ITIF is actively managed and is designed to invest in longer-term instruments in order to benefit from the normal steepness of the yield curve. The dollar weighted average maturity of the ITIF shall not exceed 3 years. An appropriate amount of the fund is maintained in short term investments to cover emergency withdrawals. No security will be purchased with a remaining life of over five years. Investment instruments authorized by the Investment Policy for the ITIF approved by the State Funding Board pursuant to Section 9-4-602, Tennessee Code Annotated, for purchase by the ITIF include: (1) bonds, notes and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies; (2) obligations guaranteed as to principal and interest by the federal home loan mortgage corporation, federal national mortgage association, student loan marketing association and other United States government-sponsored corporations; (3) repurchase agreements for obligations of the United States or its agencies; (4) prime commercial paper that is rated in the highest category by at least two nationally recognized commercial paper rating agencies; and (5) prime bankers' acceptances that are eligible for purchase by the Federal Reserve System. For each type of investment there are certain terms and conditions that must be met. All book entry securities purchased are held by the Federal Reserve Bank in the State Trust of Tennessee Account, or held by a custodian pursuant to a custodian agreement. Securities not eligible for book entry at the Federal Reserve Bank are held by a custodian pursuant to a custodian agreement.

The State Trust of Tennessee, a non-profit corporation established in 1979, is a limited member of the Federal Reserve Bank System.

In addition to the funds in the SPIF and the ITIF, the Tennessee Consolidated Retirement System (a pension trust fund), the Baccalaureate Education System Trust (a private-purpose trust), and the Chairs of Excellence Trust (a permanent fund) are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, and real estate subject to the approval of the applicable boards of trustees. See Appendix A, Financial Statements - Note 5 A "Deposits and Investments".

**Accounting Standards**

The Governmental Accounting Standards Board (“GASB”) is the body responsible for promulgating accounting and financial reporting standards that are followed by state and local governments desiring to present financial statements in accordance with generally accepted accounting principles (“GAAP”). The State adheres to GASB rules and issues audited financial statements in conformity with GAAP.

**Other Post-Employment Benefits**

In 2004, the GASB issued GASB Statements (Nos. 43 and 45) that provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits (“OPEB”).

State employees and teachers who meet specified criteria receive pension benefits provided to retirees through a defined benefit plan administered by the Tennessee Consolidated Retirement System. In addition to retirement benefits, certain qualified retirees may continue participation in health insurance sponsored by the State. Retirees who are not yet eligible for Medicare have access to the same benefits as current employees and pay monthly premiums that vary by years of service at retirement. The State has the flexibility to adjust the benefits and premium sharing provisions provided by insurance plans on an annual basis. After age 65, retirees may participate in a Medicare supplemental plan. The State’s financial support to this supplemental plan is a fixed amount based on years of service.

The current actuarial valuation of post-employment medical benefits, as of July 1, 2013, was completed during fiscal year 2014. These and the previous studies were conducted using a projected unit credit actuarial cost method and focused on individual employers within each plan. The State’s obligations resulting from the July 1, 2013 study are summarized below. The annual required contribution (“ARC”) consists of the normal cost (the portion of the actuarial present value for OPEB benefits which is allocated to a valuation year by the actual cost method) and an amortization of the unfunded actuarial liability.

	<b>As of June 30, 2014</b>	
	(expressed in thousands)	
	<b>Unfunded Actuarial Liability</b>	<b>ARC</b>
<b>State Employee Group Plan</b>		
State obligation for employees (including Component Units)	\$ 1,225,112	\$ 122,640
<b>Local Education Agency Group Plan</b>		
State obligation on behalf of teachers	294,798	30,355
<b>Medicare Supplement Plan</b>		
State obligation for employees (including Component Units)	154,051	11,381
State obligation on behalf of teachers	137,317	9,207
<b>Total State Obligation</b>	<b>\$ 1,811,278</b>	<b>\$ 173,583</b>

The actuary reports may be reviewed at: <http://www.tn.gov/finance/act/OPEB.shtml>. The State has contracted with Gabriel Roeder Smith and Company to provide biannual OPEB valuations for the State Employee Group, Teacher Group, Local Government Group and Medicare Supplement plans for fiscal years ended June 30, 2014 through June 30, 2018. The next valuation, as of July 1, 2015, that will cover fiscal years 2015-2016 and 2016-2017, is expected to be finalized in mid-July 2016.



This data was reported in the State's CAFR for fiscal year 2013-2014. For fiscal year 2013-2014, the State did not fund any actuarially determined OPEB liability and expects to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the current fiscal year. Both active employees and pre-age 65 retirees are offered the same health care plan options. The State has the flexibility to adjust the various plan options on an annual basis. It will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

### **Financial Reporting and Budgeting Awards**

The Government Finance Officers Association of the United States and Canada (the "GFOA") has awarded Certificates of Achievement for Excellence in Financial Reporting to the State for its comprehensive annual financial report for the fiscal years ended June 30, 1979 to June 30, 2008, thirty consecutive years. The State did not receive the award for the fiscal year ended June 30, 2009 due to the implementation of a new accounting system that delayed the report but did receive the award again for fiscal years ended June 30, 2010 to June 30, 2013. The Tennessee Consolidated Retirement System ("TCRS") was also awarded a Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the twenty-sixth consecutive year that TCRS received this award. To be awarded a Certificate of Achievement for Excellence, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA also presented its Distinguished Budget Presentation Award to the State for its annual budget for the fiscal years ended June 30, 1992 through June 30, 1995 and June 30, 1998 through June 30, 2014. To receive this award, a governmental unit must publish a Budget Document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

## **THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

### **Introduction**

The Tennessee Consolidated Retirement System ("TCRS") was established in 1972 as a trust to provide a defined benefit pension plan that covers four large groups of public employees - state employees, higher education employees, teachers, and employees of participating local governments. The State is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees and those higher education employees that elect to participate in TCRS to the extent such obligation is not covered by employee contributions and investment earnings. State and higher education employees hired prior to July 1, 2014 have been non-contributory since July 1, 1981. State and higher education employees hired after June 30, 2014 become members of a new defined benefit plan called the Hybrid Plan and will contribute 5% of salary to the defined benefit plan component of the Hybrid Plan. The plan provisions of the closed legacy plan and the Hybrid Plan are described in "General Information. The state employee group and higher education group are combined for actuarial and financial obligation purposes. Such obligation is funded by employer contributions as determined by an actuarial valuation and takes into consideration that state employees and higher education employees do not contribute to the plan. The state employee group includes general employees, judicial employees, and public safety employees.

The State is not directly responsible for the pension benefits provided to teachers (grades K-12) or local government employees. However, the State does provide funding to Local Education Agencies (LEAs) to assist in the funding of a system of education in Tennessee. Funds provided by the State to LEAs may be used to finance the employer pension contributions of LEAs to TCRS.

The TCRS is governed by a Board of Trustees that is responsible for the general administration and operations of TCRS within the requirements and provisions of State statutes. The Board is composed of nine ex-officio members, nine representatives of the active TCRS membership, and two representatives for retirees. The ex-officio members include the chair and vice-chair of the legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State, the Administrative Director of the Courts, the State Treasurer

(sits as the chair), and the Director of TCRS (sits as the Secretary). The employee representatives consist of three teachers (one from each grand division of the State that are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives), two state employees from departments other than those represented by ex-officio members (elected by state and higher education employees for three-year terms), one public safety officer (appointed by the Governor for a three year term), three representatives of local governments (appointed by the Tennessee County Services Association, the Tennessee Municipal League, and the Tennessee County Officers Association for two-year terms), a retired teacher (appointed by the Governor for a three-year term), and a retired state or higher education employee (appointed by the Governor for a two-year term). All employee representatives must be vested members of TCRS.

By statute, an actuarial valuation of TCRS is to be conducted at least once in every two year period. The last valuation was effective July 1, 2013. The TCRS Board of Trustees certifies to the Governor each year the amount necessary to fund the Actuarially Required Contribution ("ARC") for state and higher education employees, and by statute the General Assembly is required to appropriate such amount. Thus, for each year since 1972, the State has paid to TCRS 100% of the ARC for state and higher education employees. The ARC represents the amount necessary to fund the normal cost (the cost of current service being accrued), the amortized amount of the unfunded accrued liabilities, and the cost of the administration of TCRS pursuant to the actuarial methodology described herein. The State has not generally waived immunity from suit or extended its consent to be sued, and sovereign immunity and other legal principles may bar actions to compel the General Assembly to appropriate moneys in the future for such purposes. Beginning July 1, 2014, the term ARC is being replaced with the term actuarially determined contribution ("ADC") but is essentially the same as the ARC.

The funded ratio (actuarial value of assets / actuarial accrued liability) for the state and higher education employees was in excess of 99% for the 2001, 2003, and 2005 valuation dates, but was 86.32% as of the 2009 valuation date, 88.30% as of the 2011 valuation date, and was 89.4% as of the 2013 valuation date. In addition, the unfunded actuarial liability as a percentage of covered payroll increased from 4.29% as of the 2001 valuation date to 64.53% as of the 2009 valuation date. The ratio for the 2011 valuation was 63.93% while the 2013 valuation reflected a ratio of 58.87%. This reduction in funded ratio from 2001 to 2013, despite the State's contributions of 100% of the ARC, is principally attributable to actual investment earnings being less than the assumed investment earnings of 7.5% since 2001. The investment returns for the two years following the 2007 actuarial valuation were a negative 1.20% (fiscal year ended June 30, 2008) and a negative 15.27% (fiscal year ended June 30, 2009). Accordingly, on a compound basis for the two years, TCRS had a negative return of 16.32% while assuming a positive return of 15.56%, a difference in expected earnings from actual earnings on assets of negative 31.88%. For the ensuing two years (fiscal years 2010 and 2011), the compound return was 32.13% compared to an assumed return of 15.56%, a positive difference of 16.57%. The returns for the following years are as follows: June 30, 2012 was 5.61%; June 30, 2013 was 9.92%; June 30, 2014 was 16.65%. The compound return for the fiscal years 2012 and 2013 was 16.08% compared to an assumed return of 15.56%, a positive difference of 0.52%. Improving mortality rates among TCRS retirees also contributed to increased unfunded liabilities.

The amounts and percentages set forth under this caption relating to TCRS, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality and rates of retirement. Prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information under this caption. In addition, prospective purchasers of the Bonds are cautioned that such sources and the underlying assumptions are reflective as of their respective dates, and are subject to change. Prospective purchasers of the Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of TCRS may differ materially from the information presented herein.

### General Information

TCRS was established effective July 1, 1972 by Public Chapter 814, Acts of 1972. Section 8-34-202, Tennessee Code Annotated, provides that TCRS has the powers, privileges and immunities of a corporation and that all of its business shall be transacted, all of its funds invested, and all of its cash and other property held in trust for the purpose for which received. By statute, the general administration and responsibility for the proper operation of

TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

State and higher education employees must become members of TCRS except the higher education employees exempt from the Federal Fair Labor Standards Act may waive membership in TCRS and elect to participate in the Optional Retirement Plan (ORP), a defined contribution plan. The State is ultimately responsible for the financial obligation of benefits provided by TCRS to those state employees and higher education employees participating in TCRS to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation. The ORP is described in the section "Other Retirement Programs".

Public school teachers in grades K-12 are members of TCRS. The more than 142 local school systems in Tennessee, referred to as Local Education Agencies ("LEAs"), are responsible on a cost sharing basis for the financial obligation of the benefits provided by TCRS to K-12 teachers to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by LEA employer contributions as determined by an actuarial valuation. LEAs do not have taxing authority. The local governing body of a LEA and the State provide funding to LEAs to finance the cost of providing a system of education for the children of the State. The State's education funding formula includes an amount to be used toward some, but not all, of a LEA's pension cost (LEA's employer contributions to TCRS). For TCRS purposes, the teacher group includes certificated teachers and does not include non-teaching personnel such as bus drivers, cafeteria workers, maintenance employees, custodians, and secretaries.

Local governments may join TCRS as a participating employer in order to provide pension benefits for their employees. However, each local government is responsible for the financial obligation of the benefits provided by TCRS to their employees to the extent such obligations are not covered by their employee contributions and investment earnings. The State is not responsible for the liability associated with local governments participating in TCRS. Local governments participating in TCRS include cities, counties, special school districts, utility districts, emergency communication districts, and other political subdivisions of the State. At June 30, 2014 there were 489 local governments in the TCRS plan. Employees of local governments could include general employees, non-teaching employees of a school system, transportation department employees, public safety employees, utility employees, and employees of other departments of the local government.

The state employee group and higher education group are combined for actuarial and financial obligation purposes. LEAs are combined into a teacher cost sharing group for actuarial and financial obligation purposes. Each participating local government in TCRS is maintained separately for actuarial and financial obligation purposes. However, the assets of all four public employee groups participating in TCRS are commingled for investment purposes with each group receiving its pro rata share of investment gains and losses.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate. By practice, an actuarial valuation is performed every other year. The latest valuation was effective July 1, 2013. An actuarial valuation for accounting purposes will be performed June 30, 2014 with the results available March 2015. Beginning June 30, 2015, actuarial valuations will be performed annually for both accounting purposes and funding purposes with the results available in late December of each year. Annual actuarial valuations were implemented by the Board of Trustees based on a funding policy adopted in September 2014. In addition, it has been TCRS' practice to conduct an actuarial audit every ten years, the last audit being completed effective with the 2009 valuation. By statute, an actuarial experience study shall be conducted at least once every six years to establish demographic assumptions (pattern of retirement, turnover, mortality, etc.) and economic assumptions (investment earnings rate, salary, retiree cost of living, etc.). By practice, an actuarial experience study is conducted every four years. The last experience study was conducted in 2012 and the next will be performed in 2016, with the results available in mid-year of 2017.

TCRS issues audited financial statements on an annual basis. By statute, an independent audit is conducted by the Comptroller of the Treasury, an office established by the State's Constitution. The Comptroller of the

Treasury is a part of the legislative branch of State government and is accountable to the Tennessee General Assembly. The financial statements are prepared in conformity with generally accepted accounting principles in the United States of America.

The Comptroller of the Treasury performed the audit of the most recent financial statement of TCRS as of June 30, 2014. The latest actuarial valuation (as of July 1, 2013) and actuarial experience study (June 30, 2012) were performed by the actuarial and consulting firm of Bryan, Pendleton, Swats, & McAllister. The latest actuarial audit (July 1, 2009) was performed by the actuarial and consulting firm of Gabriel, Roeder, Smith, & Company. Such reports are available on the Tennessee Treasury website at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

By statute, the TCRS Board of Trustees certifies to the Governor each year the amount necessary to finance the actuarially required employer contributions for state employees and higher education employees, as well as the amount required to cover the expenses of administering the retirement system. By statute, the General Assembly shall make appropriations sufficient to provide for the actuarially required employer contributions for state employees and higher education employees. A separate certification is provided for the amount necessary for LEAs to finance the pension liabilities associated with the teacher group. An actuarially determined employer contribution rate is provided to each local government participating in TCRS.

As of June 30, 2014 the membership in TCRS was as follows:

	<u>Active Members</u>	<u>Retired Members</u>
State Employees	40,581	34,526
Higher Education Employees	16,829	13,317
Teachers	78,506	45,869
Local Government Employees	<u>78,144</u>	<u>39,578</u>
Total	214,060	133,290

### General Plan Provisions

#### *Legacy pension system for employees hired before July 1, 2014*

The description under this section applies to employees hired before July, 1, 2014 which was closed to new membership on June 30, 2014. Employees, whether vested or non-vested, as of June 30, 2014 continue to accrue benefits under these benefit provisions.

State employees, higher education employees, and teachers are vested upon completing five years of employment. Eligibility for a retirement benefit is either age 60 and vested or at any age after 30 years of service credit. A reduced benefit is available at age 55. Disability benefits are available after five years of employment if the member is totally and permanently disabled and cannot engage in gainful employment. Death benefits are available under certain conditions.

The benefit provided by TCRS is a mathematical formula that uses a member's highest consecutive five year average salary and a member's years of creditable service. The formula is a multi-step calculation that provides a benefit that, stated in a simplified manner, is somewhat less than 1.6% of the member's five year average salary multiplied by years of service. For example, a thirty year employee will receive approximately 48% of his or her five year average salary.

Retirees are entitled to Cost of Living Adjustments ("COLA") after retirement. As required by Section 8-36-701, Tennessee Code Annotated, cost of living adjustments are made every July 1 for retirees who have been

retired at least 12 months and if the consumer price index (all items-United States city average as published by the US Department of Labor) increases by more than one-half percent. If the consumer price index increases between one-half percent and one percent, the increase granted is one percent. Otherwise, the adjustment is the actual increase in the consumer price index except that the COLA is capped at a maximum of 3%.

State employees and higher education employees hired before July 1, 2014, are non-contributory. Teachers are required to contribute five percent of salary. Separate accounting and actuarial records are maintained for each group.

There are not any cost controls or unfunded liability controls for the closed legacy plan.

#### *Defined benefit pension plan for employees hired after June 30, 2014 as a component of the Hybrid Plan*

**Employees hired after June 30, 2014 become members of the Hybrid Plan that consists of two components, a defined benefit plan and a defined contribution plan. The defined contribution component is described in the section "Other Retirement Programs". The defined benefit component description follows.**

State employees, higher education employees, and teachers are vested upon completing five years of employment. Eligibility for a retirement benefit is either age 65 and vested or under the rule of 90 where a combination of age and service credit totals 90. An actuarially reduced benefit is available at age 60 or the rule of 80. Disability benefits are available after five years of employment if the member is totally and permanently disabled and cannot engage in gainful employment. Death benefits are available under certain conditions.

The benefit provided by TCRS under the Hybrid Plan is a mathematical formula that uses a member's highest consecutive five year average salary and a member's years of creditable service. The formula provides a benefit equal to 1.0% of the member's five year average salary multiplied by years of service. For example, a thirty year employee will receive approximately 30% of his or her five year average salary.

Retirees are entitled to COLA after retirement. As required by Section 8-36-701, Tennessee Code Annotated, COLAs are made every July 1 for retirees who have been retired at least 12 months and if the consumer price index (all items-United States city average as published by the US Department of Labor) increases by more than one-half percent. If the consumer price index increases between one-half percent and one percent, the increase granted is one percent. Otherwise, the adjustment is the actual increase in the consumer price index except that the COLA is capped at a maximum of 3%.

State and higher education employees hired on or after July 1, 2014, contribute five percent of salary. Since the State is financially responsible for state and higher education employees in the Hybrid Plan, separate accounting and actuarial records are maintained for this group. Teachers are required to contribute five percent of salary. Since LEAs are financially responsible for teachers in the Hybrid Plan, separate accounting and actuarial records are maintained for this teacher group.

#### *Cost Controls and Unfunded Liability Controls of the Hybrid Plan*

The Hybrid Plan was designed so that the maximum employer pension cost is limited to a total of 9% of salary for both the defined benefit plan and the defined contribution plan. The target is that employer contributions will be 4% of salary to the defined benefit plan and that employer contributions to the defined contribution plan will be 5% of salary. Should the actuarially determined employer contribution for the defined benefit plan be less than 4%, the excess will be held by TCRS in a stabilization reserve. When an actuarial valuation is performed and should the actuarial rate for the defined benefit exceed 4%, then a series cost control steps automatically occur in the following sequence: (1) utilize funds in the stabilization reserve, if any, (2) reduce or suspend the maximum annual COLA, (3) shift some or all of the employer contributions from the defined contribution plan to the defined benefit plan, (4) increase employee contribution by 1% of salary, (5) reduce the benefit accrual factor below 1%, and (6) freeze the plan with no future accruals being earned by employees. These cost controls apply to the state and higher education employees as a group. These same cost controls apply to teachers as a separate group.

The Hybrid Plan was designed to control the actuarial unfunded liability. If an actuarial valuation determines that the unfunded liability of the Hybrid Plan for state and higher education employees exceeds 12.5% of the five year average of the state's bond indebtedness, then the same controls set out in the preceding paragraphs will automatically occur. The provision also applies to the teacher group in the Hybrid Plan.

**Investments and Investment Policy**

Investment authority is governed by Section 8-37-104, Tennessee Code Annotated, which establishes the types of investments that are permitted. An investment policy is adopted by the Board of Trustees related to the authorized investment types and portfolio structure. The statute also provides for an Investment Advisory Council (IAC) consisting of at least five investment professionals to provide investment advice to the State Treasurer and the Chief Investment Officer.

The current investment policy adopted by the Board of Trustees is available on the Tennessee Treasury website at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

The actual allocation of assets and the policy target range at June 30, 2014 are:

<u>Asset Class</u>	<u>Policy Range</u>	<u>Actual Allocation</u>
North American Stocks	25-50%	40.0%
Domestic Bonds	20-60%	27.1%
Inflation Indexed Bonds	0-15%	5.7%
Short-term Securities	0-10%	0.9%
International Bonds	0-10%	0.0%
International Stocks	5-25%	18.2%
Private Equity & Strategic Lending	0-10%	2.8%
Real Estate	0-10%	5.3%

The historical annualized rates of return (net of fees) on TCRS investments as of June 30, 2014 are:

<u>1 Year</u>	<u>3 year</u>	<u>5 year</u>	<u>10 year</u>	<u>15 year</u>	<u>20 year</u>	<u>25 year</u>
16.65%	10.64%	12.29%	6.85%	5.74%	7.55%	7.98%

The historical annual rates of return (net of fees) on TCRS investments for the last ten years are:

Year Ended <u>June 30</u>	<u>Rate of Return</u>
2014	16.7%
2013	9.9%
2012	5.6 %
2011	19.6 %
2010	10.2 %
2009	(15.3)%
2008	(1.2)%
2007	13.2 %
2006	6.9 %
2005	7.3 %

Investment performance is calculated by the system's general investment consultant, Strategic Investment Solutions, Inc.

The vast majority of the assets of TCRS are managed internally. The investment division of TCRS, consisting of 28 investment professionals, is responsible for the internal management of the domestic stock, domestic bond, international bond, inflation indexed bond, and short-term securities portfolios. The TCRS staff monitors the eight external investment managers for the international stock portfolio.

TCRS utilizes the services of other investment consultants and advisors including a real estate consultant, real estate advisors, a strategic lending consultant, and a private equity consultant.

#### **Actuarial Methodology**

The actuarial valuation utilizes the frozen initial liability method for determining the employer contribution rate. ~~Unfunded accrued liabilities were originally established and funded over a 40-year period commencing in 1975. If, through reestablishment, no unfunded accrued liabilities are recognized, the aggregate actuarial funding method is utilized.~~ Essentially, under the frozen initial liability method, the amount of the unfunded accrued liability is frozen and amortized over the amortization period. Any actuarial gains and losses from one actuarial valuation to the next actuarial valuation are included in the normal cost rather than the unfunded accrued liability. The normal cost is financed on a level percent of salary basis over the average remaining working life of the active employees, which is estimated to be approximately 12 years. However, the Board may elect to recalculate (reestablish), rather than leave frozen, the unfunded liability and amortize the reestablished unfunded liability over the amortization period. The unfunded accrued liabilities were reestablished with the July 1, 2013 actuarial valuation. With the July 1, 2009 valuation a closed amortization period of 20 years was established. With the July 1, 2013 valuation, the amortization period for the unfunded accrued liability was scheduled to be 16 years but was shortened to 13 years for the state and higher education employee group and was shortened to eight years for the teacher group.

For fiscal years ending prior to June 30, 2007, a five year moving market average was used to value assets for actuarial purposes. Earnings in excess or below expected investment returns are recognized over a five year period. Investment gains and losses are applied to offset accumulated investment gains and losses prior to determining the amount of earnings to be phased in. Effective for fiscal years ending after June 30, 2007, a ten year moving market average is used to value assets for actuarial purposes. Earnings in excess or below expected investment returns are recognized over a ten year period. However, in no event will the actuarial value of assets be less than 80% of the market value of assets or greater than 120% of the market value of assets. For the July 1, 2013 actuarial valuation, more than \$1.682 billion of net investment losses are being excluded from the actuarial value of assets. These losses will be recognized over the next five valuation cycles (ten years). Of this \$1.682 billion of investment losses being deferred, \$529.7 million relates to the state and higher education employee group, \$835.6 million relates to the teacher group, and the remainder relates to the local governments in TCRS.

## Economic and Demographic Assumptions

The latest actuarial experience study was conducted in 2012 and determined the economic and demographic assumptions to be utilized in the 2013 and 2015 actuarial valuations. The next experience study will be conducted in 2016 with the resulting assumptions being utilized in the 2017 actuarial valuation.

The long term investment earnings assumption of 7.5% is compounded annually. A graded salary increase assumption based on age is utilized with larger increases expected for younger employees and smaller increases for older employees. The salary range begins at 9.0% at age 20 while the upper portion of the range at age 70 is 3.7%. The approximate average salary assumption increase is 4.25%. The social security wage base is assumed to increase 3.5%. The cost of living adjustment for retirees is assumed to increase 2.5% annually. A rate of inflation of 3% is assumed in establishing the economic assumptions. The salary assumption was the only economic assumption that changed from the 2008 experience study to the 2012 experience study. The salary in all the age ranges was reduced 0.50 percent.

The demographic assumptions include: post-retirement mortality, pre-retirement mortality, withdrawal rate for termination of employment, the marital status of members, the age differences of the married members and their spouses, disability rate, and pattern of retirement. The demographic assumptions are based on the past experience of participants in TCRS.

The demographic assumptions that changed as a result of the 2012 experience study include (1) post-retirement mortality was changed to reflect improved life expectancy that occurred and to partially anticipate some expected further improvement in life expectancy, and (2) pre-retirement mortality was changed to reflect improved life expectancy that occurred and anticipated projection of further improvements in life expectancy.

## Summary of Fiscal Health of TCRS

### Funded Status Based on Actuarial Value of Assets At July 1, 2013\* (dollars expressed in thousands)

Group	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a % of Covered Payroll
State & Higher Education Employees	\$12,357,233	\$13,822,970	\$1,465,737	89.40%	\$2,489,709	58.87%
Teachers	\$19,493,800	\$20,300,591	\$ 806,791	96.03%	\$3,747,221	21.53%
Combined	\$31,851,033	\$34,123,561	\$2,272,528	93.34%	\$6,236,930	36.44%

\* Date of last valuation. See "General Information" above.



**Comparison of Market Value of Assets to Actuarial Value of Assets  
At June 30, 2013\***  
(dollars expressed in thousands)

	<u>Market Value of Assets</u>	<u>Actuarial Value of Assets</u>	<u>Difference</u>
State & Higher Education Employees	\$11,827,560	\$12,357,233	\$ (529,673)
Teachers	<u>\$18,658,230</u>	<u>\$19,493,800</u>	<u>\$ ( 835,570)</u>
Combined	<u>\$30,485,790</u>	<u>\$31,851,033</u>	<u>\$(1,365,243)</u>

**Unfunded Liability if Actuarial Value of Assets were Valued at Market  
At June 30, 2013\***  
(dollars expressed in thousands)

	Unfunded Actuarial Accrued Liability per 2013 Valuation Based on Actuarial <u>Value of Assets</u>	Unfunded Actuarial Accrued Liability Based on <u>Market Value of Assets</u>
State & Higher Education Employees	<u>\$1,465,737</u>	<u>\$1,995,409</u>
Teachers	<u>\$ 806,791</u>	<u>\$1,642,361</u>
Combined	<u>\$2,272,528</u>	<u>\$3,637,770</u>

**Historical Funding Progress Based on Actuarial Value of Assets  
State and Higher Education Employees  
At June 30**  
(dollars expressed in thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability **	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a % of Covered Payroll
2013*	\$12,357,233	\$13,822,970	\$1,465,736	89.40%	\$2,489,709	58.87%
2011	11,729,841	13,284,473	1,554,631	88.30	2,431,765	63.93
2009	10,303,444	11,936,316	1,632,873	86.32	2,530,585	64.53
2007	10,221,899	11,241,864	1,019,965	90.93	2,501,095	40.78
2005	9,162,582	9,202,389	39,807	99.57	2,245,692	1.77
2003	8,589,389	8,641,882	52,493	99.39	2,011,145	2.61
2001	8,131,000	8,212,227	81,227	99.01	1,891,359	4.29

\*Date of last valuation. See "General Information" above.

\*\*As measured against actuarial value of assets.

**Historical Funding Progress Based on Actuarial Value of Assets  
Teachers  
At June 30  
(dollars expressed in thousands)**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability**</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as a % of Covered Payroll</u>
2013*	\$19,493,800	\$20,300,591	\$ 806,790	96.03%	\$3,747,221	21.53%
2011	18,388,337	19,423,152	1,034,815	94.67	3,626,582	28.53
2009	16,031,755	17,118,650	1,086,895	93.65	3,523,942	30.84
2007	15,993,095	15,998,286	5,191	99.97	3,241,772	0.16
2005	14,464,578	14,464,578	0	100.00	3,000,297	na
2003	13,509,863	13,509,863	0	100.00	2,762,152	na
2001	12,629,990	12,629,990	0	100.00	2,560,093	na

**Historical Market Value of Assets**

The historical market value of assets for the last ten years for the state employee and higher education group and the teacher group are shown in the following table:

**Historical Market Value of Assets  
At June 30  
(dollars expressed in thousands)**

<u>Year ended June 30</u>	<u>State Employee and Higher Education Employee Group</u>	<u>Teacher Group</u>
2014	\$13,429,612	\$21,214,973
2013	11,827,560	18,656,536
2012	11,070,535	17,426,697
2011	10,764,495	16,875,007
2010	9,219,743	14,389,656
2009	8,586,203	13,359,796
2008	10,376,878	16,136,072
2007	10,633,938	16,637,769
2006	9,485,405	14,930,609
2005	8,985,992	14,185,802

\*Date of last valuation. See "General Information" above.

\*\*As measured against actuarial value of assets.

**Historical Funding Progress Based on Market Value of Assets  
State and Higher Education Employees  
At June 30  
(dollars expressed in thousands)**

<u>Valuation Year</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability**</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as a % of Covered Payroll</u>
2013*	\$11,827,560	\$13,822,970	\$1,995,409	85.56%	\$2,489,709	80.15%
2011	10,764,495	13,284,473	2,519,978	81.03	2,431,765	103.63
2009	8,586,203	11,936,316	3,350,113	71.93	2,530,585	132.38
2007	10,633,938	11,241,864	607,926	94.59	2,501,095	24.31
2005	8,985,992	9,202,389	216,397	97.65	2,245,692	9.64
2003	7,953,295	8,641,882	688,587	92.03	2,011,145	34.24
2001	8,050,924	8,212,227	161,303	98.04	1,891,359	8.53

**Historical Funding Progress Based on Market Value of Assets  
Teachers  
At June 30  
(dollars expressed in thousands)**

<u>Valuation Year</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability**</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as a % of Covered Payroll</u>
2013*	\$18,658,230	\$20,300,590	\$1,642,361	91.91%	\$3,747,221	43.83%
2011	16,875,007	19,423,152	2,548,145	86.88	3,626,582	70.26
2009	13,359,796	17,118,650	3,758,854	78.04	3,523,942	106.67
2007	16,637,769	15,998,286	(639,483)	104.00	3,241,772	(19.73)
2005	14,185,802	14,646,578	460,776	96.85	3,000,297	15.36
2003	12,509,484	13,509,863	1,000,379	92.60	2,762,152	36.22
2001	12,509,407	12,629,990	120,583	99.05	2,560,093	4.71

**Cash Flows**

**Selected Cash Flows  
State Employees, Higher Education Employees, and Teachers  
(dollars expressed in thousands)**

<u>Fiscal Year</u>	<u>Cash Inflows</u>		<u>Cash Out Flows</u>		<u>Net Cash Flows</u>
	<u>Contributions</u>	<u>Interest and Dividends</u>	<u>Benefits and Refunds</u>	<u>Administrative Cost</u>	
2014	\$959,366	\$779,544	\$1,778,888	6784	(\$46,762)
2013	932,678	782,794	1,661,602	5,446	48,424
2012	925,549	767,409	1,536,603	4,749	151,606
2011	914,226	740,075	1,434,296	3,525	216,480
2010	769,038	708,925	1,336,574	3,924	137,465
2009	769,714	793,334	1,271,327	3,616	288,105
2008	774,648	928,037	1,167,609	3,711	531,365
2007	738,472	877,122	1,081,995	3,385	530,214

\*Date of last valuation. See "General Information" above.

\*\*As measured against actuarial value of assets.

## Projections

The following table provides a projection of expected benefit payment patterns. The projection is based upon the assumptions utilized in preparing the 2013 actuarial valuation. The assumptions include those regarding future salary levels, retirement dates, incidence of disability and mortality and annual cost of living adjustments.

**Benefit Payment Projections for TCRS**  
**July 1, 2013**  
**Includes State Employees, Higher Education Employees, Teachers and Employees of Local Governments**  
**(dollars expressed in thousands)**

<u>Year</u>	<u>Current Retirees</u>	<u>Future Retirees</u>	<u>Total</u>
2013	\$1,937,005	\$ 66,807	\$2,003,812
2014	1,932,550	200,405	2,132,955
2015	1,925,197	335,784	2,260,981
2016	1,914,802	474,772	2,389,574
2017	1,901,219	616,980	2,518,199
2018	1,884,276	764,734	2,649,010
2019	1,863,825	919,830	2,783,655
2020	1,839,741	1,079,768	2,919,509
2021	1,811,897	1,243,050	3,054,947
2022	1,780,173	1,415,060	3,195,233
2023	1,744,468	1,594,440	3,338,908
2024	1,704,708	1,777,281	3,481,989
2025	1,660,851	1,966,371	3,627,222
2026	1,612,850	2,162,100	3,774,950
2027	1,560,692	2,362,871	3,923,563
2028	1,504,416	2,572,593	4,077,009
2029	1,444,126	2,789,741	4,233,867
2030	1,379,985	3,012,246	4,392,231
2031	1,312,210	3,239,968	4,552,178
2032	1,241,098	3,469,424	4,710,522

### Funding Policy Adopted by TCRS Board of Trustees

By statute, it is the State's policy to fund the pension plan liabilities at the rate determined by an actuarial valuation. The employer contribution rate includes the normal cost, accrued liability cost, and cost of administration.

The TCRS Board of Trustees adopted a formal funding policy in September 2014 for benefits accrued under the TCRS. The current funding policy adopted by the Board of Trustees is available on the Tennessee Treasury website at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs). The essential elements of the funding policy are:

1. Annual actuarial valuations will be performed beginning June 30, 2015.
2. The valuation method will be entry age model.
3. Actuarial value of assets will be smoothed over a ten year period.
4. Actuarial value of assets cannot be 20% more or less than the market value of assets.
5. Unfunded liability shall be amortized using level dollar amortization method.
6. A new tier of unfunded liability shall be established with each actuarial valuation.
7. The maximum amortization shall be a closed 20 year period for each tier.
8. An actuarial experience study will be performed at a minimum of every four years.
9. An actuarial audit will be performed at least once in a ten year period

**Annual Required Contributions and Percentage Contributed**  
(dollars expressed in thousands)

Year Ended <u>June 30</u>	<u>State &amp; Higher Education Employees</u>		<u>Teachers</u>	
	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$410,552	100%	\$348,475	100%
2013	391,352	100	344,534	100
2012	382,888	100	343,594	100
2011	383,365	100	339,833	100
2010	341,585	100	236,545	100
2009	350,770	100	233,215	100
2008	374,530	100	218,882	100
2007	358,327	100	204,402	100
2006	299,138	100	175,741	100
2005	277,740	100	170,414	100

The combined annual required contributions are funded from a contribution of State funds, Federal funds, student tuition and fees, and local education agencies. The combined annual required contribution for the state and higher education employees was \$410,552,000 for the fiscal year ended June 30, 2014 representing approximately 1.8% of the total State budget for the fiscal year, as shown under "State Finances-Sources and uses of funds".

**Employer Contributions**

The 2011 actuarial valuation established the employer contribution rates for the fiscal years ending June 30, 2013 and June 30, 2014. Accordingly, the employer contribution requirement for the fiscal year ending June 30, 2013 and 2014 was at the rate of 15.03% of salary for general state employees and higher education employees and a rate of 18.47% of salary for public safety employees. The combined aggregate rate for general and public safety employees is 15.14% of salary. LEAs made employer contributions at the rate of 8.88% of salary for teachers.

The 2013 actuarial valuation establishes the employer contribution rates for the fiscal years ending June 30, 2015 and June 30, 2016. Accordingly, the employer contribution requirement for the fiscal years ending June 30, 2015 and 2016 will be the rate of 15.03% of salary for general state employees and higher education employees and a rate of 18.40% of salary for public safety employees. The combined aggregate rate is 15.14% of salary. LEAs will make employer contributions at the rate of 9.04% of salary for teachers during fiscal years 2015 and 2016.

It is anticipated that there will be upward pressure on the employer contribution rates in future actuarial valuations as the difference between the market value of assets and the actuarial value of assets that are being deferred are recognized pursuant to the five year and ten year schedule previously described in the section titled "Actuarial Methodology". The previous table "Comparison of Market Value of Assets to Actuarial Value of Assets" shows that \$529.7 million of market losses are being deferred and will be recognized in future valuations for the state and higher education employee group. For the teacher group, \$835.6 million of market losses that are being deferred will be recognized in future valuations.

During early 2011, management of TCRS engaged the retirement system's actuarial firm to conduct a review to determine an inclination of the potential employer contribution rates for the next fifteen years. The review was based on the demographic data from the 2009 actuarial valuation but took into consideration investment earnings and salary changes during fiscal year 2010. This review showed that the employer contribution rate for state employees and higher education employees could increase to a peak of 21.58% by 2017 and then begin a decline to a rate of 19.40% by 2027. The employer contribution rate for the teacher group could increase to a peak of 15.29% in 2019 and then begin a decline to a rate of 13.35% by 2027. These are merely an indication of potential rates and the actual employer contribution rates could be more or less than the projection. A stress test was also performed using

an investment return of 5.0% each year going forward rather than the 7.5% earnings assumption. In this case, the employer contribution rate for state employees and higher education employees could steadily increase reaching 25% in 2017 and continue to increase reaching 30% in 2026. For teachers, the employer contribution rate could be 20% by 2019 and continue to increase reaching 25% in 2027. Since investment earnings for the four fiscal years following this analysis have exceeded the 7.5% earnings assumption, the employer contribution rates are not anticipated to peak at the levels determined in the 2011 analysis. However, at this time no determination has been made as to when or at what levels the rates may peak.

### **GASB Statements No. 67 and No. 68**

The Governmental Accounting Standards Board ("GASB") has issued a Statement No. 67 relative to financial reporting for pension plans and Statement No. 68 relative to accounting and financial reporting for pensions for governmental entities. The statements essentially separate pension accounting from pension funding, which have historically been linked together. Statement No. 68 provides a methodology for measuring pension expense to be presented in the employer's financial statements. Moreover, Statement No. 68 provides a methodology for measuring the pension liability to be presented in the employer's financial statement. Regardless, financial statement presentation will not affect the pension funding methodologies described herein. For TCRS, the effective date of Statement No. 67 was the fiscal year ended June 30, 2014 and the effective date of Statement No. 68 for the State is the current fiscal year ending June 30, 2015.

### **Other Retirement Programs**

#### *Optional Retirement Plan in Higher Education*

Employees in higher education that are exempt from the Federal Fair Labor Standards Act may waive membership in the TCRS and elect to participate in the Optional Retirement Plan (ORP), a defined contribution plan. Employees hired prior to July 1, 2014 do not contribute to the ORP. By statute, employer contributions for employees hired before July 1, 2014 are made at the rate of 10% of salary up to the social security wage base and 11% of salary above the wage base. Employees hired after June 30, 2014 will contribute 5% of salary to the ORP. By statute, employer contributions for employees hired after June 30, 2014 are made at the rate of 9% of salary.

Employees are immediately vested in employer and employee contributions. Employees make the determination as to how the employer contributions made on their behalf are invested. Employees have a variety of investment products to choose from among three different vendors.

Employer contributions to the ORP totaled \$97.9 million for the year ended June 30, 2014. There were 11,767 ORP participants at June 30, 2014.

#### *Deferred Compensation Plan for State Employees and Higher Education Employees*

The deferred compensation program is a voluntary defined contribution plan to provide state employees and higher education employees with the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits are established by federal statute. In the 401(k) plan, employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise no match will be made.

For the year ended June 30, 2014, 50,926 employees made contributions to the 401(k) plan and 3,612 employees made contributions to the 457 plan. Employer contributions totaled \$29.0 million while employees contributed \$117.4 million.

Employees are immediately vested in employee and employer contributions. Employees can choose among a variety of investment products.

*Defined Contribution Plan for State Employees and Higher Education Employees hired after June 30, 2014 as a component of the Hybrid Plan*

One component of the Hybrid Plan is a defined contribution plan for state employees and higher education employees hired after June 30, 2014. By statute, employer contributions are made at the rate of 5% of salary. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component. Upon employment employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

Employees are immediately vested in employee and employer contributions. Employees can choose among a variety of investment products.

*Defined Contribution Plan for K-12 teachers hired after June 30, 2014 as a component of the Hybrid Plan*

One component of the Hybrid Plan is a defined contribution plan for K-12 teachers hired after June 30, 2014. By statute, employer contributions are made by the LEAs at the rate of 5% of salary. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component. Upon employment teachers are automatically enrolled to contribute 2% of salary to the defined contribution plan but teachers may elect to increase or decrease the employee contributions at any time.

Employees are immediately vested in employee and employer contributions. Employees can choose among a variety of investment products.

## **DEBT OF CERTAIN AGENCIES AND AUTHORITIES**

The following entities are the corporate governmental agencies and instrumentalities of the State authorized to issue various debt instruments. The State is not liable for any debt instrument issued by any of the following entities, and no such debt instrument is a debt or obligation of the State and the full faith and credit of the State is not pledged to the payment thereof.

### **Tennessee Local Development Authority**

In 1978, the General Assembly created the Tennessee Local Development Authority (the "TLDA") pursuant to Sections 4-31-101 et seq., Tennessee Code Annotated. TLDA is a corporate governmental agency and instrumentality of the State. TLDA is authorized to (i) loan funds to local governments for sewage treatment, waterworks and capital projects (the "State Loan Programs"), for firefighting equipment, and for airport facilities; (ii) loan funds to certain small business concerns for pollution control equipment; (iii) make funds available for loans for agricultural enterprises; (iv) make loans to not-for-profit organizations providing certain mental health, mental retardation, and alcohol and drug services; and (v) make loans to local government units to finance construction of capital outlay projects for K-12 educational facilities. In order to fund these loans, TLDA is empowered to issue its bonds and notes. The aggregate amounts outstanding for certain programs are limited as follows: \$10,000,000 for firefighting equipment; \$200,000,000 for airport facilities; \$50,000,000 for pollution control equipment; \$50,000,000 for mental health, mental retardation, and alcohol and drug services; \$30,000,000 for agricultural enterprises; \$15,000,000 for petroleum underground storage tank cleanup costs; and \$75,000,000 for capital outlay projects for K-12 educational facilities.

In 2009 the General Assembly delegated to the TLDA the authority to allocate the State's portion of the "national qualified energy conservation bond limitation," as defined in § 54D of the Internal Revenue Code of 1986, codified in 26 U.S.C. § 54D. In 2012 the General Assembly clarified that a "qualified energy conservation project" constitutes a capital project under the State Loan Programs.

Bonds and notes issued by TLDA are secured by: (i) in the case of loans to local governments, monies received by TLDA under loan program agreements with the local governments and by the local governments'

allocation of state-shared taxes; (ii) in the case of loans to small business concerns, monies received under agreements with those concerns; (iii) in the case of agricultural loans, monies received under agreements with lenders and a pledge of any money, income or revenue from any source; (iv) in the case of loans to not-for-profit organizations, monies received under State grant agreements and a pledge of the department of mental health and mental retardation's annual budget; and (v) in the case of loans to local government units to finance construction of capital outlay projects for K-12 educational facilities, monies received by TLDA under loan agreements with local education agencies payable from taxes authorized to be levied for the purpose and certain proceeds of the Tennessee lottery for education.

Currently the only program being funded by TLDA is the State Loan Programs. As of January 31, 2015, TLDA had \$5,520,000 (unaudited) of bonds outstanding for this program.

### **Tennessee State School Bond Authority**

In 1965, the General Assembly created the Tennessee State School Bond Authority (the "Authority"), pursuant to Sections 49-3-1201 et seq., Tennessee Code Annotated. The Authority is a corporate governmental agency and instrumentality of the State. The Authority is authorized to issue its bonds and notes to finance capital outlay programs for higher educational facilities which may be required or convenient for the purposes of The University of Tennessee, including its branches and divisions, and for the purposes of the institutions of higher education under the supervision and administration of the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee. In 1980, the General Assembly further authorized the Authority to issue its bonds or notes to provide funds for the making of student loans by the Tennessee Student Assistance Corporation; however, no such bonds or notes have been issued for this purpose. The Authority also is authorized to issue Qualified Zone Academy Bonds ("QZAB") and Qualified School Construction Bonds ("QSCB") to finance improvement loans to cities and counties for qualifying K-12 schools for capital projects.

Generally, all outstanding higher educational facility debt obligations of the Authority are secured by financing charges payable under contracts and agreements entered into by the Authority and the Board of Trustees of The University of Tennessee and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, as successor to the State Board of Education; legislative appropriations; and certain funds and accounts established by the Higher Educational Facilities General Bond Resolutions of the Authority. The QZABs and QSCBs are part of a Federal government program in which a Federal income tax credit is given to investors in lieu of interest on the bonds. For certain of the QSCBs, a Federal income tax credit is given to bondholders in lieu of the payment of interest on bonds, and in certain other QSCBs an election is made by the Authority to receive direct interest subsidy payments from the United States Treasury, which if not needed to cure defaults under loan agreements with the borrowers, are transferred to them. The QZABs and QSCBs are secured by a general obligation pledge of the borrowers and a pledge of unobligated State-shared taxes of the borrowers.

As of January 31, 2015, the Authority had outstanding \$1,300,325,000 (unaudited) aggregate principal amount of higher educational facility bonds, \$135,651,375 (unaudited) of higher educational facility revolving credit facility, and \$43,920,000 (unaudited) aggregate principal amount of QZAB bonds. As of January 31, 2015, the total par amount of QSCBs outstanding was \$389,440,000 (unaudited). A sinking fund has been established for the retirement of the QSCBs, and \$94,318,378 was the book value of assets on deposit as of January 31, 2015.

### **Tennessee Housing Development Agency**

In 1973, the General Assembly created the Tennessee Housing Development Agency (the "Agency"), pursuant to Sections 13-23-101 et seq., Tennessee Code Annotated (the "Tennessee Housing Development Agency Act"). The Agency is authorized, among other things, to issue its bonds and notes to make funds available for the financing of residential housing for persons and families of lower and moderate income.

The Agency has established a mortgage finance program and is making funds available for loans for residential housing for persons or families of lower and moderate income. Such loans are secured by eligible mortgages on the properties. The Agency has made, but does not currently make, loans for multi-family residential housing for rental occupancy.



In order to accomplish its objectives, the General Assembly has authorized the Agency to issue its bonds and notes, provided that the aggregate principal amount outstanding on such bonds and notes may not exceed \$2,930,000,000, excluding bonds and notes which have been refunded. The Agency's net indebtedness, excluding the bonds and notes which have been refunded, at January 31, 2015, was \$1,880,720,000 (unaudited).

Obligations of the Agency are secured by, among other things, mortgage loans made by the Agency from the proceeds of such obligations. Obligations of the Agency issued prior to April 18, 2013, incorporate provisions of the Tennessee Housing Development Agency Act that provide a mechanism for certifying to the Governor and to the Commissioner of Finance and Administration amounts, if any, needed for debt service or operating expenses of the Agency and authorizes the General Assembly to appropriate, to expend and to provide for the payment of such amounts, but imposes no legal obligation upon the General Assembly to do so. These provisions of the Tennessee Housing Development Agency Act do not constitute a legally enforceable obligation of the State to pay any such amounts. Under the Constitution of the State, no monies may be withdrawn from the Treasury but in consequence of appropriations made by law.

#### **Watkins Institute**

Watkins Institute (the "Institute") is an educational institution located in Nashville. Since 1881, the State has served as trustee of a trust providing for the maintenance of the Institute. On behalf of the State as trustee and with the approval of the State Senate, the Governor of the State appoints commissioners of the Institute, all as provided in the wills and codicils establishing the trust. In 1956, the Chancery Court of Davidson County determined that the Institute was a State agency for the purpose of providing capital improvements through the issuance of bonds. As of January 31, 2015, the amount of outstanding bonds was \$1,603,175 (unaudited).

#### **State Veterans' Homes Board**

In 1988, the General Assembly created the Tennessee State Veterans' Homes Board (the "Veterans' Homes Board") pursuant to Sections 58-7-101 to 58-7-112, inclusive, Tennessee Code Annotated. A political subdivision and instrumentality of the State, the Veterans' Home Board is authorized to issue its debt instruments to finance public homes for the support and care of honorably discharged veterans of the United States armed forces. Such homes will be established only if Federal Veterans' Administration funds are available to provide a share of the construction and operation costs. Prior to the issuance of any debt instruments, the Veterans' Homes Board must receive the approval of the State Funding Board. The Veterans' Homes Board has no outstanding bonds. Loans to the Veterans' Homes Board were funded through the issuance of general obligation bonds authorized by the General Assembly.

## **LITIGATION**

Due to its size and broad range of activities, the State and its officers and employees are involved in a number of legal actions. In view of the financial condition of the State, it is the opinion of the Commissioner of Finance and Administration that the State's financial condition will not be materially affected by such litigation, based on information known at the date of this Official Statement.

*Brian A., et al. v. Haslam, et al.*, (U.S. Dist. Ct., M.D. Tenn.). This is a 42 U.S.C. § 1983 civil rights action against the Governor and the Commissioner of the Department of Children's Services, ("DCS", "the Department"), in their official capacities in which the plaintiffs, minors in state custody, alleged systemic violations by the State of federal statutory and constitutional rights of all children in foster care and unequal treatment of African-American children in foster care. Represented by an advocacy group, Children's Rights, Inc., of New York City (CRI), as well as local counsel in Nashville, Memphis and Knoxville, the plaintiffs sought system-wide declaratory and injunctive relief.

On October 26, 2000, the Court denied the Department's motion to dismiss on all but one claim, thereby leaving the bulk of the plaintiffs' case intact. Based on the loss of the motion to dismiss, the Department requested, and the Court agreed, that the parties should be ordered into mediation. After several months of negotiation, the parties entered a Settlement Agreement, which the Court approved in July 2001. In 2010, the parties agreed to an Exit

Plan designed to eventually lead to an end of court oversight of the Department. According to the Exit Plan, once DCS maintains compliance with all sections of the Exit Plan for one year, court jurisdiction over all sections of the Settlement Agreement except one will end. The remaining section, which mandates an external accountability center, will stay in effect and be funded by the State for eighteen more months. The Technical Assistance Committee, which monitors the Department's compliance with the Settlement Agreement and Exit Plan, decides what provisions come into maintenance. The Court approved the parties' jointly filed Modified Settlement Agreement and Exit Plan in November 2010.

Since then, the Department has worked to comply with the dictates of the Settlement Agreement. Modified Settlement Agreements were filed in 2011, 2012, 2013 and 2014. Presently, 82 provisions are in maintenance, 5 provisions are in partial maintenance and 49 provisions are not yet in maintenance.

*People First v. Clover Bottom*, (U.S. Dist. Ct., M.D. Tenn.). This is a class action civil rights suit regarding institutional conditions at Clover Bottom, Greene Valley and Nat T. Winston Developmental Centers. This action was consolidated with a case brought pursuant to the Civil Rights of Institutionalized Persons Act filed by the Department of Justice also alleging that the constitutional rights of residents at these developmental centers were being violated. A settlement agreement was negotiated and was conditionally approved by the District Court on July 3, 1997. Since that time, the State has been working to implement the terms of the Settlement Agreement. Nat T. Winston Developmental Center has since been closed and the institutional conditions at Greene Valley Developmental Center found to be in substantial compliance. The State is in the process of closing Clover Bottom Developmental Center. The issue of the quality of services and supports provided to class members living in community-based homes remains at issue. The State entered mediation with the parties in an attempt to reach an exit plan for the dismissal of this lawsuit. The mediation is complete and an Exit Plan was negotiated and approved by all parties. The Court approved the Exit Plan on January 29, 2015, following a fairness hearing held January 21, 2015. The Exit Plan calls for the closure of the Greene Valley Developmental Center and contemplates completion of its terms by June 30, 2016; if those terms are completed the case will be dismissed with prejudice.

*Tobacco Master Settlement*. Though there is no current tobacco payment litigation involving Tennessee, there is the potential for the State to be involved in future arbitrations arising out of disputes concerning an adjustment to annual tobacco payments. Tennessee and 51 other states and territories receive annual payments from participating tobacco manufacturers under the 1998 Tobacco Master Settlement Agreement ("MSA"). The amount of those payments varies each year depending on domestic sales volume and several other adjustments. A "Non-Participating Manufacturer ("NPM") Adjustment" can reduce a state's payment if certain conditions occur and if the state did not diligently enforce its model escrow statute, which requires tobacco manufacturers that did not settle to pay into an escrow account each year. If an arbitration results in a finding that a state did not diligently enforce during a calendar year, the state shares the NPM Adjustment with any other states found non-diligent for that year. Thus, the amount of the payment reduction is inversely proportional to the number of states that lose the diligent enforcement determination (i.e., the greater the number of losing states, the lower the payment reduction). A state can lose up to its entire MSA payment for a year. Tennessee's annual MSA payment generally ranges from \$130-\$150 million. Tennessee and 23 other states have resolved the NPM Adjustment disputes for 2003-2014 in a settlement with the participating tobacco manufacturers. However, starting in 2015 Tennessee would again be subject to the potential for an NPM Adjustment to be applied if its diligence is challenged in an arbitration and the State is unsuccessful in proving its diligence. It should be noted that the 2004 arbitration for the states that did not join the more recent settlement has not yet commenced, so any arbitration for 2015 would most likely not begin for a number of years.

*State of Mississippi v. State of Tennessee, et al.*, (U.S. Supreme Court). On June 10, 2014, the State of Mississippi filed a motion in the U.S. Supreme Court for leave to commence an original action against the State of Tennessee, the City of Memphis, and the city's utility, Memphis Light, Gas and Water. This is in connection with Memphis' withdrawal of ground water, which is primarily used to supply drinking water. Mississippi is alleging that these withdrawals have been taking ground water that is in Mississippi, which that state claims to own in a proprietary capacity. Mississippi is seeking an injunction to limit Memphis' ground water withdrawals, and \$615 million in damages for the past withdrawals. Mississippi filed a similar motion in 2009, which the Supreme Court denied. The State is in the process of responding to the current motion. If Mississippi's motion is granted the Supreme Court will appoint a Special Master to consider Mississippi's complaint. The State believes that it has strong legal and factual arguments and that it should prevail ultimately on the merits even if the Court grants Mississippi's motion for leave and appoints a Special Master. However, there is no guarantee of such a result and the

State could be enjoined and/or required to pay damages if Mississippi were to succeed in its lawsuit. At this time, it is impossible to quantify the economic impact upon the State if such an event were to occur. On October 20, 2014, the Supreme Court issued an order inviting the U.S. Solicitor General to file a brief expressing the views of the United States. The State does not expect the Supreme Court to unduly delay making a decision on Mississippi's motion after the Solicitor General's brief has been filed.

*Illinois Central Railroad Co. v. Tenn. Dept. of Revenue, et al.*, (6th Cir. Ct. App.; U.S. Dist. Ct., M.D. Tenn.; Davidson Co. Chancery Ct.). The Illinois Central case will control the outcome of a number of lawsuits that have been filed by railroads challenging the sales tax on plaintiffs' purchases of diesel fuel on grounds that the now repealed tax discriminated against railroads and favored trucking companies in violation of the federal Railway Revitalization and Regulatory Reform Act. These railroad cases are being held in abeyance pending the outcome of the Illinois Central litigation which has been appealed to the U.S. Court of Appeals for the Sixth Circuit. The total amount at issue in these lawsuits and related potential claims is approximately \$150 million. In December 2014, the Sixth Circuit issued an order holding the Illinois Central case in abeyance pending the decision of the U. S. Supreme Court in an Alabama railroad diesel fuel case, in which Tennessee authored an amicus brief on behalf of 15 states. The Alabama case was argued in December 2014 and the U.S. Supreme Court is expected to issue a decision later this year.

*Insurance Premiums Tax Cases*, (Tennessee Claims Commission). There are currently 33 pending cases, all initially filed before the Tennessee Claims Commission and some subsequently appealed to other courts, in which various out-of-state insurance companies doing business in Tennessee present substantially similar questions regarding whether retaliatory taxes were properly imposed. New York insurance companies filed 13 cases disputing \$33.9 million in retaliatory taxes; Pennsylvania companies filed 13 cases disputing \$23.9 million in retaliatory taxes; Florida companies filed 2 cases disputing \$2.6 million; South Carolina companies filed 2 cases disputing \$1.1 million; and Connecticut companies filed three cases disputing \$539,310. The Claims Commission and subsequently the Tennessee Court of Appeals ruled in the State's favor in the Pennsylvania cases. The Pennsylvania insurance company plaintiffs have been granted permission to file an appeal with the Tennessee Supreme Court. The State has prevailed in the 13 cases filed by New York insurance companies. Though plaintiffs in the New York cases are expected to file a cert petition with the U.S. Supreme Court, the State believes this petition is unlikely to be granted. The aggregate amount in dispute in the pending retaliatory tax cases is \$62,004,124.

*Gilead Sciences, Inc. v. Roberts; Allergan, Inc. v. Roberts* (Davidson Co. Chancery Court). *Gilead* is a franchise and excise tax case, in which a pharmaceutical company requests a tax refund and seeks a "look-through" variance to attribute its sales to the location of the ultimate consumer rather than to Tennessee where its sales occur. Thirty-two million dollars is in dispute. The outcome of *Gilead* is likely to be controlled by the five pending *Allergan* cases which involve similar refund claims totaling \$10.2 million. The *Allergan* lawsuits were filed by another pharmaceutical company and are further along in the litigation process.

## TAX MATTERS

### Federal Tax Matters – Series A and Series B Bonds

#### *General*

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series A Bonds and Series B Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and others in connection with the Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the State with certain ongoing covenants to comply with applicable

requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Tax-Exempt Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, on the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds.

For the proposed form of opinion of Bond Counsel relating to Federal tax matters, see Appendix C.

#### *Certain Ongoing Federal Tax Requirements and Covenants*

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds in order that interest on the Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The State has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

#### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Tax-Exempt Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Tax-Exempt Bonds.

Prospective owners of the Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### *Original Issue Discount*

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Tax-Exempt Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Tax-Exempt Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Tax-Exempt Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Tax-Exempt Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### *Bond Premium*

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on that Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners of any Premium Tax-Exempt Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange or other disposition of Premium Tax-Exempt Bonds.

#### *Information Reporting and Backup Withholding*

Information reporting requirements apply to interest on tax-exempt obligations, including the Tax-Exempt Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Tax-Exempt Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

## *Miscellaneous*

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Tax-Exempt Bonds under Federal or state law or otherwise prevent beneficial owners of the Tax-Exempt Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Tax-Exempt Bonds. For example, the Fiscal Year 2015 Budget proposed by the Obama Administration recommended a 28% limitation on “all itemized deductions, as well as other tax benefits” including “tax-exempt interest.” The net effect of such a proposal, had it been enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond, regardless of issue date.

Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding the foregoing matters.

## **Federal Tax Matters – Series C Bonds**

### *General*

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, interest on the Series C Bonds is included in gross income for United States Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Series C Bonds. For the proposed form of opinion of Bond Counsel relating to Federal tax matters, see Appendix C.

The following discussion is a brief summary of the principal Federal income tax consequences of the acquisition, ownership and disposition of Series C Bonds by original purchasers of the Series C Bonds who are “U.S. Holders”, as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Series C Bonds will be held as “capital assets”; and (iii) does not discuss all of the Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Series C Bonds as a position in a “hedge” or “straddle”, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or holders who acquire Series C Bonds in the secondary market, or individuals, entities and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Series C Bonds should consult with their own tax advisors concerning the Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series C Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

### *Original Issue Discount*

In general, if Original Issue Discount (“OID”) is greater than a statutorily defined de minimis amount, a holder of a Series C Bond [having a maturity of more than one year from its date of issue] must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Series C Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing; “issue price” means the first price at which a substantial amount of the Series C Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Series C Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “de minimis amount” is an amount equal to 0.25 percent of the Series C Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may

irrevocably elect to include in gross income all interest that accrues on a Series C Bond using the constant-yield method, subject to certain modifications.

#### *Acquisition Discount on Short-Term Series C Bonds*

Each holder of a Series C Bond with a maturity not longer than one year (a "Short-Term Series C Bond") is subject to rules of Sections 1281 through 1283 of the Code, if such holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of pass-through entities, or if the Short-Term Series C Bond is held primarily for sale to customers, is identified under Section 1256(e)(2) of the Code as part of a hedging transaction, or is a stripped bond or coupon held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and "acquisition discount" with respect to, the **Short-Term Series C Bond** accrue on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant interest rate basis using daily compounding. "Acquisition discount" means the excess of the stated redemption price of a Short-Term Series C Bond at maturity over the holder's tax basis therefor.

A holder of a Short-Term Series C Bond not described in the preceding paragraph, including a cash-method taxpayer, must report interest income in accordance with the holder's regular method of tax accounting, unless such holder irrevocably elects to accrue acquisition discount currently

#### *Bond Premium*

In general, if a Series C Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Series C Bond other than "qualified stated interest" (a "Taxable Premium Bond"), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder's basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

#### *Disposition*

Generally, upon the sale, exchange, redemption, or other disposition of a Series C Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Series C Bond.

#### *Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a Series C Bond and the proceeds of the sale of a Series C Bond before maturity within the United States. Backup withholding may apply to holders of Series C Bonds under **Section 3406 of the Code**. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's Federal income tax provided the required information is furnished to the Internal Revenue Service.

#### *U.S. Holders*

The term "U.S. Holder" means a beneficial owner of a Series C Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to the Federal income

taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

#### *Miscellaneous*

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series C Bonds under state law and could affect the market price or marketability of the Series C Bonds.

Prospective purchasers of the Series C Bonds should consult their own tax advisors regarding the foregoing matters.

#### **State of Tennessee Tax Matters**

In the opinion of Bond Counsel to the State, under existing laws of the State, the principal of and interest on the Bonds are exempt from taxation by the State or by any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

Bond Counsel expresses no opinion regarding any other state or local tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, under state and local tax law.

For the proposed form of opinion of Bond Counsel relating to State tax matters, see Appendix C.

### **UNDERWRITING**

The Underwriters of the Bonds have agreed, subject to certain conditions, to purchase all of the Bonds from the State at an aggregate purchase price to be paid by the Underwriters of \$\_\_\_\_\_ (representing the principal amount of the Bonds of \$\_\_\_\_\_ plus original issue premium of \$\_\_\_\_\_, less Underwriters' discount of \$\_\_\_\_\_). The bond purchase agreement provides that the Underwriters shall purchase all of the Bonds if any are purchased, subject to the conditions contained therein. The Bonds may be offered and sold to certain dealers, banks and others at prices different than the offering prices indicated on the inside front cover page hereof, and such offering prices may be changed from time to time.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. ("PFM") is employed by the State to perform professional services in the capacity of financial advisor. In its role as financial advisor to the State Funding Board, PFM has provided advice on the plan of financing and structure of the Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and reviewed and will give an opinion to the State Funding Board on the fairness of the pricing of the Bonds by the underwriting syndicate. PFM has not independently verified the factual information contained in this Official Statement, but relied on the information supplied by the State and other sources and the State's certification as to the Official Statement.



## VERIFICATION AGENT

The arithmetical accuracy of certain computations included in the schedules provided by PFM on behalf of the State relating to (a) computation of forecasted receipts of principal and interest on the obligations deposited under the Refunding Trust Agreements and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Series B and Series C Bonds and the obligations deposited under the related Refunding Trust Agreement was examined by \_\_\_\_\_. Such computations were based solely upon assumptions and information supplied by PFM on behalf of the State. \_\_\_\_\_ has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## RATINGS

Moody's Investors Service, Inc. (Moody's), Standard and Poor's Ratings Services ("Standard and Poor's") and Fitch Ratings ("Fitch") have given the Bonds ratings of \_\_\_, \_\_\_ and \_\_\_, respectively. Such ratings reflect only the respective views of such organizations and an explanation of the significance of a rating may be obtained only **from the rating agency furnishing the same. There is no assurance that any rating will be maintained for a given** period of time or that it will not be revised downward or withdrawn entirely by the rating agency if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of ratings may have an adverse effect on the market price of the Bonds.

## LEGAL OPINIONS

The validity of the Bonds will be approved by the legal opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the State. For the proposed form of Bond Counsel opinion relating to the Bonds, see Appendix C. Certain legal matters will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to the State Funding Board. No representation is made to the holders of the Bonds that any such counsel have verified the accuracy, completeness or fairness of the statements in this Official Statement, and such counsel assume no responsibility to the holders of the Bonds except for the matters that will be set forth in their respective opinions.

## CONTINUING DISCLOSURE

The State has authorized the Continuing Disclosure Undertaking (the "Undertaking") with respect to the Bonds to assist in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Undertaking will be for the benefit of the holders of the Bonds, and beneficial owners will be third-party beneficiaries thereof. The form of the Undertaking is included herein as Appendix E.

The State has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in the Rule, during the preceding five years, except as follows. The State filed audited financial statements for the fiscal years ended June 30, 2009 and June 30, 2010 later than the time prescribed by certain previous continuing disclosure undertakings, as a result of its implementation of new financial software. **The continuing disclosure undertakings requiring the filings for those years in the first instance contemplated the** delay, and event notices related to the delayed posting of audited financial statements were timely filed on EMMA in each year. Rating downgrades on the insurer of several maturities of one series of its general obligation bonds (such series was issued in 2003 and by August 1, 2011 all maturities of such series had either been refunded or had matured) were not the subject of material event notices due, in part, to the lack of any direct notification to the State of the specific rating impact on such bonds. Finally, the material event notice with respect to the 2010 recalibration of the State's credit rating by Fitch was filed 17 days after the Fitch rating recalibration. The State believes that this filing was timely under the terms of its then-effective continuing disclosure agreements, which required that material

event filings be made promptly (the Rule was subsequently amended to impose a 10-day window for filing notices of material events related to credit rating changes).

## FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided that are not purely historic, are forward-looking statements, including statements regarding the expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available on the date hereof, and assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business and policy decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized.

All financial and other information presented in this Official Statement has been provided by the State from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other revenues, is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

References to and summaries of provisions of the State Constitution and laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

STATE OF TENNESSEE

By: \_\_\_\_\_  
Comptroller of the Treasury;  
Secretary of the Funding  
Board of the State of  
Tennessee

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**Financial Statements**

The **Comprehensive Annual Financial Report** (“CAFR”) of the State, including the **audited Basic Financial Statements**, for the fiscal year ended June 30, 2014 has been filed with the **Municipal Securities Rulemaking Board** through its Electronic Municipal Market Access (“EMMA”) system (see “Continuing Disclosure” and Appendix E) and is obtainable from them in accordance with their procedures. A printed version is also available upon request to the State Funding Board, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-1402, telephone (615) 401-7872, fax (615) 741-5986. The 2013 CAFR and certain prior year CAFRs are posted on the State’s website at <http://tn.gov/finance/act/cafr.shtml>.

The following reports, each of which are included in the 2014 CAFR and have been posted on the State’s website, are incorporated herein by reference:

Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position

Statement of Activities

Fund Financial Statements:

Balance Sheet-Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Statement of Net Position-Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds

Statement of Cash Flows-Propriety Funds

Statement of Fiduciary Net Position-Fiduciary Funds

Statement of Changes in Fiduciary Net Position-Fiduciary Funds

Notes to the Financial Statements

Required Supplementary Information:

Infrastructure Assets Reported Using the Modified Approach

Other Post Employment Benefits Schedule of Funding Progress – Primary Government

Other Post Employment Benefits Schedule of Funding Progress – Component Units

Pension Schedule of Funding Progress – Primary Government

Pension Schedule of Funding Progress – Component Units

Ten-Year Claims Development Table – Access TN Insurance Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-Major Governmental Funds

Note to RSI

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**Statistical Section**

The Comprehensive Annual Financial Report (“CAFR”) of the State, including selected statistical data (unaudited), for the fiscal year ended June 30, 2014 has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system (see “Continuing Disclosure” and Appendix E) and is obtainable from them in accordance with their procedures. A printed version is also available upon request to the State Funding Board, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-1402, telephone (615) 401-7872, fax (615) 741-5986. The 2013 CAFR and certain prior year CAFRs are posted on the State’s website at <http://tu.gov/finance/act/cafr.shtml>.

The following statistical data, all of which is included in the 2014 CAFR and has been posted on the State’s website, is incorporated herein by reference:

Financial Trends

Revenue Capacity

Debt Capacity

Demographic and Economic Information

Operating Information

Component Units

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Form of Proposed Opinion of Bond Counsel

[Closing Date]

The Honorable Governor and Members of  
the Funding Board of the State of Tennessee  
Nashville, Tennessee 37243

STATE OF TENNESSEE  
GENERAL OBLIGATION BONDS  
2015 SERIES A, \$100,000,000\*  
2015 REFUNDING SERIES B \$92,980,000\*  
2015 REFUNDING SERIES C (FEDERALLY TAXABLE), \$37,445,000\*

Dear Sirs:

At your request we have examined into the validity of \$100,000,000\* General Obligation Bonds, 2015 Series A (the "Series A Bonds"), \$92,980,000\* General Obligation Bonds, 2015 Refunding Series B (the "Series B Bonds"), and \$37,445,000\* General Obligation Bonds, 2015 Refunding Series C (Federally Taxable) (the "Series C Bonds" and, collectively with the Series A Bonds and Series B Bonds, the "Bonds") of the State of Tennessee (the "State"). The Bonds are dated as of the date hereof, and mature, are subject to redemption prior to maturity, are payable and bear interest, all as provided in the resolution of the Funding Board hereinafter mentioned.

The Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and laws of the State, including specifically Title 9, Chapter 9, Tennessee Code Annotated, various Public Acts of the General Assembly of the State of Tennessee, and a resolution adopted by the Funding Board of the State of Tennessee on February 26, 2015, in the case of the Series A Bonds, for the public purposes of various State departments and institutions and to provide for the retirement at maturity of certain of the State's general obligation bond anticipation notes constituting commercial paper heretofore issued for such purposes, and in the case of the Series B Bonds and Series C Bonds, to refund certain outstanding general obligation bonds of the State.

We have examined the Constitution and statutes of the State; certified copies of proceedings of the Funding Board of the State of Tennessee and Public Acts of the General Assembly of the State of Tennessee authorizing the issuance of the Bonds, and an executed Bond of each series, and have made such other examination of law and fact, as we have considered appropriate for purposes of this opinion letter.

Based on the foregoing, we are of the opinion that:

(1) The Bonds have been authorized and issued in accordance with the Constitution and laws of the State, and constitute valid direct general obligations of the State for the payment of the principal of and premium, if any, and interest on which there is also pledged the full faith and credit of the State. The State has not generally waived immunity from suit or extended its consent to be sued, and monetary actions against the State for breach of contractual obligations may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs.

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\*Subject to change



(2) Under existing statutes and court decisions, (i) interest on the Series A Bonds and Series B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series A Bonds and Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph (2), we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and others in connection with the Series A and Series B Bonds, and have assumed compliance by the State with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the Series A and Series B Bonds from gross income under Section 103 of the Code. Under the Code, noncompliance with such requirements may cause the interest on the Series A and Series B Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered.

(3) Interest on the Series C Bonds is included in gross income for Federal income tax purposes.

(4) Under the existing laws of the State, the principal of and interest on the Bonds are exempt from taxation by the State or by any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

The opinions expressed in paragraph (1) above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the Bonds, or ~~the ownership or disposition thereof, except as stated in paragraphs (2) (3) and (4) above,~~ (ii) the effect of any action ~~taken or not taken, in reliance upon an opinion of other counsel,~~ on the ~~exclusion from gross income~~ for Federal income tax purposes of interest on the Series A and Series B Bonds, or under state or local tax law, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement dated \_\_\_\_, 2015 (or any update or amendment thereof or supplement thereto) relating to the Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material or matters of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason.

Very truly yours,

**BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds bearing interest at each interest rate, each in the aggregate principal amount of such maturity bearing interest at such rate, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holding on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding

the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or any Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the State or any Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or any Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct or Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be prepared and delivered to DTC.

**THE FOREGOING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM DTC, A SOURCE THAT STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE STATE, THE UNDERWRITERS, NOR THE PAYING AGENT AND REGISTRAR CAN MAKE ANY ASSURANCE THAT DTC OR THE DTC PARTICIPANTS WILL ACT IN A MANNER DESCRIBED HEREIN, NOR WILL THEY HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC, ANY DIRECT DTC PARTICIPANT, OR ANY INDIRECT DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC OR ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATIONS TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND DOCUMENTS TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS.**

So long as Cede & Co. is the registered owners of the Bonds, as nominee for DTC, references in the Official Statement to the Bondholders or registered owners of the Bonds (other than under the caption "Tax Matters" in the Official Statement) shall mean Cede & Co. or any other DTC nominee, as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is dated and made as of \_\_\_\_, 2015 by the State of Tennessee (the "State") in connection with the issuance of the State's \$\_\_\_\_ aggregate principal amount of General Obligation Bonds, 2015 Series A, \$\_\_\_\_ aggregate principal amount of General Obligation Bonds, 2015 Refunding Series B, and \$\_\_\_\_ aggregate principal amount of General Obligation Bonds, 2015 Refunding Series C (Federally Taxable) (collectively, the "Bonds"). As authorized by Section 10 of the resolution (the "Bond Resolution") of the Funding Board of the State of Tennessee (the "Funding Board") adopted on \_\_\_\_, 2015 authorizing the Bonds, the State agrees as follows:

## ARTICLE I

Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means (i) updated versions of the following financial information and operating data contained in, or incorporated by reference pursuant to an Appendix to, the Official Statement with respect to the State, for each fiscal year of the State:

- Special Tax Collections
- Total Sales and Use Tax Collections
- Allocation of Sales and Use Tax to Debt Service
- Outstanding General Obligation Bonded Indebtedness
- Long-Term General Obligation Bonded Debt Service by Fiscal Year and Maturity
- Maximum and Actual Principal Amounts of Commercial Paper Outstanding
- Other Post-Employment Benefits
  - Unfunded Actuarial Liability
  - Annual Required Contribution
- Rainy Day Fund Reserve Balance
- TennCare Budget Growth
- Tennessee Consolidated Retirement System
  - Statistical data
  - Tables
- Debt of Certain Agencies and Authorities
  - Tennessee Local Development Authority
  - Tennessee State School Bond Authority
  - Tennessee Housing Development Agency
  - Watkins Institute
  - State Veterans' Homes Board
- The statistical data incorporated by reference in Appendix B to the Official Statement

and (ii) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting ~~Annual Financial Information are of general categories or types of financial information and operating data.~~ When ~~such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued,~~ a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements of the State, audited by the Comptroller of the Treasury, Division of State Audit, as now required by State law (or such other auditor as

hereafter may be required or permitted by State law). Audited Financial Statements shall be prepared in accordance with GAAP.

(3) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to the State.

(4) “EMMA” means the MSRB’s Electronic Municipal Market Access system or its successor

(5) “GAAP” means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b) of the Securities Exchange Act of 1934, as amended, or any successor to the MSRB or the functions of the MSRB contemplated by this Undertaking.

(7) “Notice Event” means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Bondholders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

(xiii) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(8) "Notice Event Notice" means notice of a Notice Event.

(9) "Official Statement" means the Official Statement dated \_\_\_\_, 2015 of the State relating to the Bonds.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the effective date hereof, including any official interpretations thereof.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

## ARTICLE II

### The Undertaking

Section 2.1. Purpose. This Undertaking is being executed, delivered and made solely to assist the underwriters of the Bonds in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The State shall provide Annual Financial Information with respect to each fiscal year of the State, commencing with the fiscal year ending June 30, 2015, by no later than 7 months after the end of the respective fiscal year, to the MSRB.

(b) The State shall provide, in a timely manner, notice of any failure of the State to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof because not available, the State shall provide Audited Financial Statements, when and if available, to the MSRB.

Section 2.4. Notice Events. (a) If a Notice Event occurs, the State shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, a Notice Event Notice to the MSRB.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The State acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the State and that, under some circumstances, additional disclosures or other action in addition to those required by this Undertaking may be required to enable the State to fully discharge all of its duties and obligations under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Notice Event Notice, in addition to that which is required by this Undertaking. If the State chooses to do so, the State shall

have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

### ARTICLE III

#### Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the State provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The provisions of this Section shall not apply to Notice Event Notices pursuant to Section 2.4 hereof.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Filing with Certain Dissemination Agents or Conduits. The State may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the State under this Undertaking, and revoke or modify any such designation.

Section 3.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

Section 3.5. Fiscal Year. (a) ~~The State's~~ current fiscal year is July 1 . June 30. The State shall promptly notify ~~the MSRB~~ of each ~~change in~~ its ~~fiscal year~~.

(b) The State shall provide Annual Financial Information at least annually notwithstanding any fiscal year longer than 12 calendar months.

### ARTICLE IV

#### Effective Date, Termination, Amendment and Enforcement

Section 4.1. Effective Date, Termination. (a) This Undertaking shall be effective upon the issuance of the Bonds.

(b) The State's obligations under this Undertaking shall terminate with respect to each Bond upon the legal defeasance, prior redemption or payment in full of such Bond.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that the State (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Undertaking, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 4.2. Amendment. (a) This Undertaking may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the State or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State shall have received an opinion of Counsel to the same effect as set forth

in clause (2) above, (4) the State shall have received either an opinion of Counsel or a determination by a person, in each case unaffiliated with the State, to the effect that the amendment does not materially impair the interests of the holders of the outstanding Bonds, and (5) the State shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Undertaking may be amended without the consent of the holders of the Bonds if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Undertaking, (2) the State shall have received an opinion of Counsel to the effect that performance by the State under this Undertaking as so amended will not result in a violation of the Rule as so amended or officially interpreted and (3) the State shall have delivered copies of such opinion and amendment to the MSRB.

(c) To the extent any amendment to this Undertaking results in a change in the categories or types of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the State in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. ~~Contract, Benefit, Third-Party Beneficiaries, Enforcement.~~ (a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking and shall be deemed to be holders of Bonds for purposes of Section 4.3(b) hereof. The provisions of this Undertaking shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the State to comply with the provisions of this Undertaking shall be enforceable by any holder of outstanding Bonds; however, the holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the State's obligations under this Undertaking.

(c) Any failure by the State to perform in accordance with this Undertaking shall not constitute a default or an event of default under the Bond Resolution or State law and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Bond Resolution and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.



Section 4.4. Effective Date. This Undertaking shall be effective upon the issuance and delivery by the State of the Bonds.

STATE OF TENNESSEE

By: \_\_\_\_\_  
Sandra Thompson  
Assistant Secretary, Funding Board  
of the State of Tennessee, *and*  
Director, Office of State and Local Finance,  
State of Tennessee



STATE OF TENNESSEE

\$111,065,000  
GENERAL OBLIGATION BONDS, 2014 SERIES A

\$79,160,000  
GENERAL OBLIGATION BONDS, 2014 REFUNDING SERIES B

**BOND PURCHASE AGREEMENT**

July 17, 2014

The Funding Board of the State of Tennessee  
Nashville, Tennessee

Ladies and Gentlemen:

Morgan Stanley & Co. LLC (the "Representative"), on behalf of itself and the other underwriters listed in Appendix I attached hereto (collectively, the "Underwriters"), hereby offers to enter into this Bond Purchase Agreement (the "Purchase Agreement") with the State of Tennessee (the "Issuer") for the purchase by the Underwriters and the sale by the Issuer of the Issuer's general obligation bonds specified below. This offer is made subject to acceptance thereof by the Issuer prior to 6:00 p.m., prevailing time in Nashville, Tennessee, on the date hereof, and, upon such acceptance, evidenced by the signature of a duly authorized officer of the Issuer in the space provided below, this Purchase Agreement shall be in full force and effect in accordance with its terms and shall be a valid contractual obligation of the Issuer and binding upon the Underwriters.

A. Purchase Price.

1. Upon the terms and conditions and upon the basis of the representations and warranties herein set forth, the Underwriters hereby agree to purchase from the Issuer, and the Issuer hereby agrees to sell to the Underwriters all, but not less than all, of the Issuer's (i) General Obligation Bonds, 2014 Series A, in the original aggregate principal amount of \$111,065,000.00 (the "2014 Series A Bonds"), at an aggregate purchase price of \$130,171,390.81 (the "2014 Series A Purchase Price"), representing the aggregate principal amount of the 2014 Series A Bonds, plus a reoffering premium of \$19,230,254.55, less Underwriters' discount of \$123,863.74 and (ii) General Obligation Bonds, 2014 Refunding Series B, in the original aggregate principal amount of \$79,160,000.00 (the "2014 Series B Bonds" and, together with the 2014 Series A Bonds, the "Bonds"), at an aggregate purchase price of \$95,459,034.95 (the "2014 Series B Purchase Price" and, together with the 2014 Series A Purchase Price, the "Purchase Price"), representing the aggregate principal amount of the 2014 Series B Bonds, plus a reoffering premium of \$16,390,603.25, less Underwriters' discount of \$91,568.30. The Bonds shall mature on the dates and shall bear interest from their dated date at the rates and shall be subject to redemption prior to maturity as set forth in the Official Statement (hereinafter defined) and on Appendix II attached hereto. The Bonds shall be payable at the times and in the manner, and shall otherwise have the terms and provisions, set forth in the Official Statement.
2. If the Issuer accepts this offer and if the Underwriters fail (other than for a reason permitted hereunder) to accept and pay for the Bonds upon tender thereof by the Issuer in

compliance with the provisions of this Purchase Agreement at the Closing (as defined below), the parties hereby agree that the damages to the Issuer shall be fixed at one percent (1%) of the aggregate principal amount of the Bonds, and, upon such failure of the Underwriters to accept and pay for the Bonds, the Underwriters shall be obligated to pay to the Issuer such amount as and for full liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriters. Upon such payment, the Underwriters shall be fully released and discharged of all claims, rights and damages for such failure and for any and all such defaults. In no event shall the Issuer be entitled to damages of any nature other than the liquidated damages herein specified for such failure.

**B. Delivery of and Payment for the Bonds.**

1. At or prior to 11:30 a.m., prevailing time in Nashville, Tennessee on August 19, 2014, the date of delivery and payment for the Bonds (the "Closing Date"), or at such other time or date as shall have been mutually agreed upon by the Issuer and the Representative, the Issuer will deliver or cause to be delivered to the Representative, the Bonds, qualified for book-entry delivery through The Depository Trust Company ("DTC") in New York, New York, in definitive form, duly executed by officers of the Issuer designated in the Resolution (as defined herein), together with the other documents hereinafter mentioned; and, subject to the conditions contained herein, the Representative will **accept such delivery and pay the Purchase Price by wire transfer of immediately available funds payable to the order of the Issuer.**
2. **The Issuer and the Representative agree that there shall be a preliminary closing held at the Office of State and Local Finance of the State of Tennessee, 505 Deaderick Street, Suite 1600, Nashville, Tennessee, commencing at least 10 hours prior to the Closing Date, or at such other time or place as the Issuer and the Representative shall agree.**
3. Delivery of the definitive Bonds as aforesaid shall be made at the offices of DTC in New York, New York, or at such other location as may be designated by the Representative at least one business day prior to the Closing Date. Payment for the Bonds shall be made as **set forth in Section B.1. hereof.** The delivery of the other documents shall be made at the **Office of State and Local Finance of the State of Tennessee** or at the offices of the **Attorney General of the State of Tennessee ("Counsel to the Issuer"), John Sevier Building, 425 Fifth Avenue North, Nashville, Tennessee.** Such payment and the related delivery are **herein called the "Closing."** The Bonds will be delivered as fully-registered bonds, bearing proper CUSIP numbers, and registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds.
4. After execution by the Issuer, the Bonds shall be held in safe custody at DTC. The Issuer shall release or authorize the release of the Bonds from safe custody at the Closing upon receipt of payment for the Bonds as aforesaid.

**C. Official Statement.**

1. Prior to the date hereof, the Issuer has provided to the Underwriters for their review the preliminary official statement dated July 10, 2014, as revised on July 11, 2014 to include ratings (the "Preliminary Official Statement"). The Issuer hereby represents and warrants that the Preliminary Official Statement previously furnished to the Representative was "deemed final" by the Issuer as of the date of its July 11 revision for purposes of Rule 15c2-12 ("Rule 15c2-12") promulgated by the Securities and Exchange Commission of the United States (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act") except for the omission of such information as is permitted in Rule

15c2-12. The Issuer hereby consents to and confirms the prior use by the Underwriters of the Preliminary Official Statement delivered to the Underwriters and made available on the Internet at [www.i-dealprospectus.com](http://www.i-dealprospectus.com) in connection with the public offering of the Bonds by the Underwriters, and further confirms the authority of the Underwriters to use, and consents to the use of, a final Official Statement (in printed or electronic form) with respect to the Bonds, to be dated the date hereof, and any amendments or supplements thereto that shall be approved by the Issuer (as so amended and supplemented, the "Official Statement") in connection with the public offering, and sale of the Bonds.

2. The Issuer shall provide, or cause to be provided, to the Underwriters as soon as practicable after the acceptance of this Purchase Agreement and in any event no later than **seven business days after the date of this Purchase Agreement**, 50 copies of the final Official Statement which the Underwriters agree is an amount sufficient to permit the Underwriters to **comply with Rule 15c2-12**, and other applicable rules of the SEC and the Municipal Securities Rulemaking Board (the "MSRB"). The Issuer shall further cause the Official Statement to be posted on [www.i-dealprospectus.com](http://www.i-dealprospectus.com) for the longer of thirty (30) days or the End of the Underwriting Period as defined herein.
3. The Issuer hereby authorizes the Representative to file, and the Representative hereby agrees to file, the Official Statement with the MSRB through the operation of the Electronic Municipal Market Access System ("EMMA") within one business day after receipt from the Issuer, but by no later than the Closing Date (as defined herein), in such manner and accompanied by such forms as are required by the MSRB, in accordance with applicable MSRB Rules, and shall maintain such books and records as required by MSRB Rules with respect to filing of the Official Statement.

D. **Amendments to Official Statement.** The Issuer covenants with the Underwriters to notify promptly the Representative if, during the Update Period (as defined in H.3.), any event shall occur that would cause the Official Statement to contain, or information shall come to the attention of the Issuer that is reasonably likely to cause the Official Statement (whether or not previously supplemented or amended) to contain, any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and if in the opinion of the Underwriters such event requires the preparation and distribution of a supplement or amendment to the Official Statement, to prepare and furnish to the Underwriters, at the Issuer's expense, such number of copies of the supplement or amendment to the Official Statement, in form and substance mutually agreed upon by the Issuer and approved by the Underwriters, as the Underwriters may reasonably request to comply with Rule 15c2-12 and if such notification shall be given subsequent to the Closing Date, such additional legal opinions, certificates, instruments, and other documents as the Underwriters may reasonably deem necessary to evidence the truth and accuracy of any such supplement or amendment to the Official Statement.

E. **Public Offering.** The Underwriters agree to make a bona fide initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) of all of the Bonds at initial offering prices not greater than or yields not lower than those shown on the inside cover of the Official Statement. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such initial public offering prices in the sole discretion of the Underwriters. Subsequent to such initial public offering, the Underwriters reserve the right to change the initial offering prices as they may deem necessary in connection with the marketing of the Bonds and over-allot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market and to discontinue such stabilizing, if commenced, at any time.

F. End of Underwriting Period. For purposes of this Purchase Agreement, the "End of the Underwriting Period" shall mean the earlier of the Closing Date, unless the Issuer has been notified to the contrary by the Representative on or prior to the Closing Date, or the date on which the "end of the underwriting period" for the Bonds has occurred under Rule 15c2-12. The Representative shall notify the Issuer when the "end of the underwriting period" for the Bonds has occurred under Rule 15c2-12 with respect to the unsold balance of bonds that are held by any of the Underwriters for sale to the public within the meaning of Rule 15c2-12.

G. Plan of Financing.

1. The Bonds shall be as described in, and shall be issued under and secured pursuant to the provisions of, a resolution adopted by the Funding Board of the Issuer on June 18, 2014 including as a part thereof a Series Certificate (collectively, the "Resolution"), substantially in the form delivered to the Representative, with only such changes to the Resolution as shall be mutually agreed upon between the Issuer and the Representative prior to Closing.
2. The net proceeds from the sale of the 2014 Series A Bonds will be applied to the: (i) funding of certain capital projects of the Issuer; (ii) retirement at maturity of a portion of the Issuer's outstanding commercial paper issued to fund certain capital projects of the Issuer; and (iii) payment of certain costs of issuance of the 2014 Series A Bonds.
3. The net proceeds from the sale of the 2014 Series B Bonds will be applied to the: (i) refunding of the Issuer's outstanding General Obligation Bonds, 2008 Series A, dated September 1, 2008, maturing September 1, 2025 through September 1, 2028, inclusive, and General Obligation Bonds, 2009 Series C, dated December 16, 2009, maturing May 1, 2026 through May 1, 2030, inclusive (collectively, the "Refunded Bonds"); and (ii) payment of certain costs of issuance of the 2014 Series B Bonds.
4. In connection with the refunding of the Refunded Bonds, the Issuer will enter into a Refunding Trust Agreement, dated as of the Closing Date (the "Refunding Trust Agreement") with Regions Bank, Nashville, Tennessee, as refunding trustee, for the benefit of the holders of the Refunded Bonds.

H. Representations and Warranties of the Issuer.

The Issuer hereby agrees with, and makes the following representations and warranties to the Underwriters, as of the date hereof and as of the Closing Date, which representations and warranties shall survive the Closing:

1. The Issuer is authorized by the Constitution and statutes of the State of Tennessee to: (i) to issue the Bonds for the purposes set forth in the Resolution, (ii) to secure the Bonds in the manner contemplated in the Resolution, and (iii) to execute, deliver and perform its obligations under the Bonds, the Resolution, the Official Statement, the Continuing Disclosure Undertaking, to be dated the Closing Date, in substantially the form attached as Appendix E to the Official Statement (the "Continuing Disclosure Undertaking"), the Refunding Trust Agreement and this Purchase Agreement.
2. The Issuer, has, and at the Closing Date will have, full legal right, power, and authority pursuant to the Resolution to execute and deliver the Purchase Agreement, the Continuing Disclosure Undertaking and the Refunding Trust Agreement, to issue, sell, and deliver the Bonds as provided herein, and to carry out and to consummate the

transactions contemplated by this Purchase Agreement, the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement, and the Official Statement.

3. On and as of the date hereof and, unless an event of the nature described in Section K hereof subsequently occurs, until the earlier of (i) 90 days from the End of the Underwriting Period or (ii) the time when the Official Statement is available to any person from EMMA (but in no case less than 25 days following the End of the Underwriting Period (the "Update Period")), the information in the Official Statement with respect to the Issuer and its affairs does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.
4. The Bonds are issued under and pursuant to and in full compliance with the Constitution and laws of the State, including specifically Title 9, Chapter 9, Tennessee Code Annotated (the "Act"), various Public Acts of the General Assembly of the State of Tennessee, and the Resolution.
5. By official action of the Issuer prior to or concurrently with the acceptance hereof, the Issuer has duly authorized and approved the distribution of the Preliminary Official Statement and the execution, delivery, and distribution of the Official Statement, and has duly authorized and approved the issuance and sale of the Bonds upon the terms set forth herein and in the Resolution and the Official Statement, and the execution and delivery of, and the performance by the Issuer of the obligations on its part contained in, the Bonds, the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement and this Purchase Agreement.
6. The Issuer is not in breach of or in default under the Act or any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, note, resolution, agreement, or other instrument to which the Issuer is a party or is otherwise subject or by which it or its properties may be bound, that is material to the issuance, payment or security for the Bonds (a "Material Adverse Effect"). The issuance and sale of the Bonds upon the terms set forth herein and in the Resolution and the Official Statement, and the execution and delivery by the Issuer of the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement and this Purchase Agreement, and its compliance with the provisions of each thereof, will not conflict with or constitute a material breach of or default under the Act or any law, administrative regulation, judgment, decree, indenture, loan agreement, note, resolution, agreement, or other instrument to which the Issuer is a party or is otherwise subject, except for such conflicts, breaches and/or defaults as would not, individually or in the aggregate, result in a Material Adverse Effect.
7. All approvals, consents, and orders of any governmental authority, board, agency, or commission having jurisdiction that would constitute a condition precedent to the performance by the Issuer of its obligations under this Purchase Agreement, the issuance of the Bonds, and the execution and delivery and performance by the Issuer of the Resolution, the Continuing Disclosure Undertaking, this Purchase Agreement, and the Refunding Trust Agreement, have been obtained or will be obtained prior to the Closing.
8. The Bonds, when issued, authenticated, and delivered in accordance with the Resolution and sold to the Underwriters as provided herein, will be the valid contractual general obligations of the Issuer issued in conformity with and entitled to the benefit and security of the Resolution and for the payment of which, as to both principal and interest, the full

faith and credit of the State is pledged; and the Bonds shall constitute a charge and lien upon the entire fees, taxes and other revenues and funds allocated to the general fund, the debt service fund, and the highway fund and, if necessary, upon the first such fees, taxes, revenues and funds thereafter received and allocated to such funds, except only such fees, taxes, revenues and funds as may be otherwise legally restricted and subject to the pledge of Special Taxes (as defined in the Official Statement) to the payment of certain bonds of the issuer outstanding on July 1, 2013.

9. The Resolution has been duly adopted by the Issuer. The terms and provisions of the Resolution comply in all respects with the requirements of the Act, and the Resolution and, when executed and delivered by the parties thereto, the Continuing Disclosure Undertaking and the Refunding Trust Agreement will constitute the valid contractual obligations of the Issuer, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law; and, further, the Issuer has not waived immunity from suit or extended its consent to be sued, and monetary actions against the Issuer for breach of contractual obligations may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs.
10. This Purchase Agreement has been duly authorized, executed and delivered, and constitutes a valid contractual obligation of the Issuer, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law; and, further, the Issuer has not waived immunity from suit or extended its consent to be sued, and monetary actions against the Issuer for breach of contractual obligations may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs.
11. There is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, public board, or body, pending or, to the knowledge of the Issuer, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices or seeking to prohibit, restrain, or enjoin the issuance, sale, or delivery of the Bonds or the collection of the revenues or assets of the Issuer pledged or to be pledged to pay the principal of, premium, if any, and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity of the Bonds, the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement or this Purchase Agreement or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, or contesting the power or authority of the Issuer to issue the Bonds or to execute and deliver the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement or this Purchase Agreement, or wherein an unfavorable decision, ruling, or finding would materially adversely affect the validity of the Bonds, the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement or this Purchase Agreement.
12. The proceeds received from the sale of the Bonds shall be used in accordance with the Act and the Resolution and as set forth herein and in the Preliminary Official Statement and the Official Statement.



13. Any certificate signed by an authorized officer of the Issuer and delivered to the Representative shall be deemed a representation and warranty of the Issuer to the Underwriters as to the accuracy in material respects of the statements made therein.
14. The Issuer has entered or will enter into, in accordance with Rule 15c2-12, the Continuing Disclosure Undertaking in substantially the form set forth in Appendix E to the Preliminary Official Statement and to the Final Official Statement for the benefit of bondholders to provide annual financial information and notices of certain events to the MSRB through EMMA and to the appropriate state information depository, if any.
15. Except as otherwise provided in the Preliminary Official Statement and Official Statement, the Issuer has complied in all material respects during the preceding five years with all previous undertakings in its written continuing disclosure undertakings, contracts and agreements under Rule 15c2-12.
16. The Preliminary Official Statement, as supplemented and amended through the date hereof, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.
17. At the time of the Issuer's acceptance hereof and (unless the Official Statement is amended or supplemented pursuant to Section D of this Purchase Agreement) at all times subsequent thereto during the period up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.
18. If the Official Statement is supplemented or amended pursuant to Section D of this Purchase Agreement, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the period up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which made, not misleading.
19. **The financial statements of, and other financial information regarding, the Issuer in the Preliminary Official Statement and in the Official Statement fairly present the financial position and results of the Issuer as of the dates and for the periods therein set forth.** The financial statements of the Issuer have been prepared in accordance with generally accepted accounting principles consistently applied, and except as noted in the Preliminary Official Statement and in the Official Statement, the other historical financial information set forth in the Preliminary Official Statement and in the Official Statement has been presented on a basis consistent with that of the Issuer's audited financial statements included in the Preliminary Official Statement and in the Official Statement. Prior to the Closing, the Issuer will not take any action within or under its control that will cause any adverse change of a material nature in such financial position, results of operations or condition, financial or otherwise, of the Issuer. Except as described in the Preliminary Official Statement and in the Official Statement, the Issuer is not a party to any litigation or other proceeding pending or, to its knowledge, threatened which, if decided adversely to the Issuer would have a material adverse effect on the financial condition of the Issuer.

20. The Issuer will not, prior to the Closing Date, offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, except in the ordinary course of business, without the prior approval of the Underwriters; provided, however, upon notice to the Underwriters, the Issuer may issue commercial paper from time to time without the prior approval of the Underwriters.

I. Covenants of the Issuer. The Issuer hereby covenants with the Underwriters that:

1. The Issuer shall not supplement or amend the Official Statement or cause the Official Statement to be supplemented or amended prior to the end of the Update Period without the prior written consent of the Representative, which will not be unreasonably withheld.
2. The Issuer shall not amend, terminate, or rescind, and will not agree to any amendment, termination, or rescission of the Resolution or this Purchase Agreement without the prior written consent of the Representative prior to the Closing Date, which will not be unreasonably withheld.
3. The Issuer shall promptly advise the Representative by written notice of any matter arising or discovered after the date of this Purchase Agreement and prior to the end of the Update Period that if existing or known at the date hereof would render any of the representations or warranties set forth herein to be untrue or misleading or might adversely affect the correctness or completeness of any statement of material fact ~~regarding the Issuer contained~~ in the Official Statement; or any developments that affect ~~the accuracy and completeness of the key~~ representations (within the meaning of Rule 15c2-12) regarding the Issuer contained in the Official Statement that may occur during the Update Period.
4. The Issuer will furnish such information and execute such instruments and take such action in cooperation with the Underwriters, at no expense to the Issuer, as the Underwriters may reasonably request (a) to (1) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States as the Underwriter may designate and (2) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and (b) to continue such qualifications in effect so long as required for the distribution of the Bonds (provided, however, that the Issuer will not be required to qualify as a foreign corporation or to file any general or special consents to service of process under the laws of any jurisdiction) and will advise the Underwriters immediately of receipt by the Issuer of any written notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose.
5. The Issuer shall not voluntarily undertake any course of action inconsistent with satisfaction of the requirements applicable to the Issuer as set forth in this Purchase Agreement.

J. Certain Conditions to Underwriters' Obligations. The Underwriters have entered into this Purchase Agreement in reliance upon the representations, warranties, and agreements of the Issuer contained herein and upon the accuracy of the statements to be contained in the documents and instruments to be delivered at the Closing. Accordingly, the Underwriters' obligations under this Purchase Agreement to purchase, accept delivery of, and pay for the Bonds are subject to the performance by the Issuer of its obligations hereunder required to be performed at or prior to the Closing Date, and to the following additional conditions precedent:

1. On the Closing Date, the representations and warranties of the Issuer contained herein shall be true, complete, and correct as if made on and as of the Closing Date; the Official Statement shall have been executed and delivered by the Issuer; the Resolution, the Continuing Disclosure Undertaking and the Refunding Trust Agreement shall have been duly executed and delivered by the appropriate parties thereto, shall be in full force and effect, and shall not have been amended, modified, or supplemented, except as may have been agreed to in writing by the Representative; the proceeds of the sale of the Bonds shall have been paid to the Issuer for deposit for use as described in the Official Statement and in the Resolution; and the Issuer shall have adopted and there shall be in full force and effect such resolutions as, in the opinions of Hawkins Delafield & Wood LLP, Bond Counsel, and Bass, Berry & Sims PLC, counsel for the Underwriters, shall be necessary in connection with the transactions contemplated hereby.
2. At or prior to the Closing, the Representative shall receive the following:
  - a) The unqualified approving opinion of Bond Counsel, addressed to the Issuer, dated the Closing Date and in substantially the form attached as Appendix C to the Official Statement with only such changes thereto as are satisfactory to the Representative, and a letter of such Bond Counsel, dated the Closing Date and addressed to the Underwriters, to the effect that their opinion addressed to the Issuer may be relied upon by the Underwriters to the same extent as if such opinion was addressed to them;
  - b) A supplementary opinion of Bond Counsel, dated the Closing Date, addressed to the Underwriters and the Issuer, to the effect that: (i) this Purchase Agreement has been duly authorized, executed and delivered by the Issuer, and constitutes a valid contractual agreement of the Issuer, subject to sovereign immunity, applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law; (ii) no approval or other action is required to be obtained by the Issuer from any governmental authority or agency in connection with the issuance and sale of the Bonds, the adoption of the Resolution, or the execution by the Issuer of this Purchase Agreement, the Continuing Disclosure Undertaking, the Refunding Trust Agreement or the Official Statement that has not already been obtained or taken, except that the offer and sale of the Bonds in certain jurisdictions may be subject to compliance with the provisions of the securities or blue sky laws of such jurisdictions (as to which no opinion need be expressed); (iii) the statements contained in the Official Statement under the captions "The Bonds" (other than information relating to The Depository Trust Company and its book-entry only system), "Application of Bond Proceeds And Plan of Refunding," "Security for the Bonds," and "Tax Matters" fairly summarize the provisions of the documents or matters of law indicated therein, and the statements contained in the Official Statement describing the Resolution fairly summarize the provisions of such document purported to be summarized; and (iv) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Resolution is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended;
  - c) A certificate of Counsel to the Issuer, dated the Closing Date, and in form and substance satisfactory to the Representative, to the effect that: there is no action, suit, or proceeding or investigation at law or in equity before or by any court,

public board, or body pending, or, to the knowledge of such counsel, threatened against or affecting the Issuer to restrain or enjoin the issuance or delivery of any of the Bonds or the security pledged under the Resolution, or in any way contesting or affecting the power of the Issuer relating to the issuance or validity of the Bonds or any provision of the Resolution, or the execution, delivery, and performance by the Issuer of the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement, or this Purchase Agreement or materially adversely affecting the financial condition of the Issuer;

- d) An opinion of Counsel to the Issuer addressed to the Issuer to the effect that: (i) the Issuer has full legal right, power, and authority to adopt the Resolution and to execute and deliver the Continuing Disclosure Undertaking, the Refunding Trust Agreement, the Bonds and this Purchase Agreement, and to issue the Bonds and apply the proceeds thereof pursuant to the Resolution; (ii) the Issuer has duly authorized, executed, and delivered the Resolution, the Continuing Disclosure Undertaking, the Refunding Trust Agreement, the Bonds and this Purchase Agreement and, assuming due authorization, execution, and delivery by the other parties thereto where required, each constitutes a valid contractual agreement of the Issuer, subject to sovereign immunity, applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law, and compliance with the provisions of each thereof will not conflict with or constitute a violation or breach of or default under any existing law or administrative rule or regulation, or, to the best of the knowledge of such counsel, any court order or decree, or any agreement, contract, or other instrument to which the Issuer is a party or is otherwise subject or bound; (iii) the distribution of the Preliminary Official Statement and the execution, delivery, and distribution of the Official Statement have been duly authorized by the Issuer; (iv) no approval or other action is required to be obtained by the Issuer from any governmental authority or agency in connection with the issuance and sale of the Bonds, or the execution by the Issuer of this Purchase Agreement, the Resolution, the Bonds, the Continuing Disclosure Undertaking, the Refunding Trust Agreement or the Official Statement which has not already been obtained or taken, except that the offer and sale of the Bonds in certain jurisdictions may be subject to compliance with the provisions of the securities or blue sky laws of such jurisdictions (as to which no opinion need be expressed); (v) the Official Statement has been duly executed and delivered by the Issuer; (vi) the execution and delivery of this Purchase Agreement, the Bonds, the Continuing Disclosure Undertaking, the Refunding Trust Agreement, and the Official Statement were duly authorized pursuant to the Resolution at one or more meetings of the Issuer that were called and held pursuant to all applicable laws and regulations, and with all public notice required by all applicable laws and regulations and at which a quorum was present and acting throughout; and (vii) the representations and warranties of the Issuer as set forth in this Purchase Agreement are, as to all matters of law, true and accurate on and as of the Closing Date as if made on the Closing Date;
- e) The opinion of counsel to the Underwriters, dated the Closing Date, to the effect that (i) the Bonds are exempt from registration under the Securities Act, and the Resolution is exempt from qualification under the Trust Indenture Act of 1939, as amended; (ii) without having undertaken to determine independently, or to assume responsibility for, the accuracy, completeness or fairness thereof, and

based solely on their participation in meetings and telephone conferences at which representatives of the Issuer, Issuer's Counsel, Bond Counsel, and the Representative were at various times present, nothing has come to their attention that would lead them to believe that the information and statements in the Preliminary Official Statement, as of the date thereof and as of the date of pricing of the Bonds, or the Official Statement, as of the date thereof and as of the Closing Date (excluding therefrom information regarding DTC, the Book-Entry System, the financial statements and statistical data included in the Preliminary Official Statement and the Official Statement, as to which no view need be expressed) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (iii) the Continuing Disclosure Undertaking of the Issuer complies in all material respects with the requirements of Section (b)(5)(i) of Rule 15c2-12;

- f) A certificate dated the Closing Date by the Secretary or Assistant Secretary to the Funding Board of the Issuer to the effect that: (i) the representations and warranties of the Issuer contained herein are true and correct on and as of the Closing Date (except to the extent the same relate to an earlier date) with the same effect as if made on the Closing Date; and (ii) the Issuer has complied with all agreements and satisfied all the conditions on its part to be performed or satisfied with respect to the Bonds at or prior to the Closing;
- g) A certificate dated the Closing Date by the Secretary or Assistant Secretary to the Funding Board of the Issuer to the effect that: no event affecting the Issuer has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose for which it is to be used or that it is necessary to disclose therein in order to make the statements and information therein with respect to the Issuer not misleading in any material respect;
- h) A certificate of an officer of the Issuer, acceptable to the Representative, dated the Closing Date, to the effect that the Bonds have been executed in accordance with the Resolution by duly authorized officers or signatories of the Issuer; and an incumbency certificate of the Issuer, in form and content acceptable to the Representative and Bond Counsel, dated the Closing Date, with respect to the officers or other signatories of the Issuer who have executed and delivered the Bonds and all other financing documents to be signed by the Issuer;
- i) Evidence satisfactory to the representatives that the Bonds have been rated not less than "Aaa", "AA+" and "AAA" respectively, by Moody's Investors Service, Inc., Standard & Poor's Ratings Service and Fitch Ratings, which ratings remain in effect on the Closing Date;
- j) Copies of the Resolution certified by the Secretary or Assistant Secretary to the Funding Board as having been duly adopted by the Funding Board and as being in full force and effect, with such changes or amendments as may have been approved by the Representative;
- k) Executed counterparts of the Continuing Disclosure Undertaking, the Refunding Trust Agreement, this Purchase Agreement, and the tax certificate executed by the parties thereto, or copies thereof certified by the Secretary or Assistant Secretary of the Funding Board;

- l) The Preliminary Official Statement and an executed Official Statement, together with any supplements or amendments thereto in the event either has been supplemented or amended, in the case of the Official Statement executed on behalf of the Issuer by a duly authorized officer thereof;
- m) Specimen of the Bonds;
- n) The verification report prepared by Robert Thomas CPA, LLC described in the Official Statement under the caption "Verification Agent";
- o) Such additional legal opinions, signatures, other certificates and other instruments and documents as the Underwriters may reasonably request to evidence the truth, accuracy and completeness, as of the date of this Purchase Agreement and as of the date of Closing, of the representations and warranties of the Issuer contained in this Purchase Agreement and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Issuer at or prior to Closing of all agreements then to be performed and of all conditions then to be satisfied by the Issuer.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters contained in this Purchase Agreement, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriters nor the Issuer shall have any further obligations hereunder, except as provided in Section L. hereof. However, the Representative may in its discretion waive one or more of the conditions imposed by this Purchase Agreement for the protection of the Underwriters and proceed with the Closing.

K. Termination. The Underwriters shall have the right to terminate this Purchase Agreement by notification to the Issuer from the Underwriters of the election of the Underwriters to do so if, after the execution hereof and prior to the Closing:

1. An event shall occur which makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements contained therein not misleading in any material respect and requires an amendment or supplement to the Official Statement and the effect of which, in the reasonable judgment of the Underwriters, would materially adversely affect the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriters of the Bonds; or
2. Legislation shall be introduced in, enacted by, reported out of committee, or recommended for passage by the State of Tennessee, either House of the Congress, or recommended to the Congress or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives (including sponsorship or co-sponsorship), or legislation is proposed for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Internal Revenue Code of 1986 (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the

Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the taxation of interest received on obligations of the general character of the Bonds which, in the reasonable opinion of the Underwriters, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriters of the Bonds; or

3. A stop order, ruling, regulation, proposed regulation or statement by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering, sale or distribution of obligations of the general character of the Bonds is in violation or would be in violation of any provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended; or
4. Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the SEC, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended (the "Securities Act"), or that the Resolution is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect; or
5. There shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the reasonable judgment of the Underwriters, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or
6. There shall have occurred a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for securities shall have been required on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the SEC or any other governmental agency having jurisdiction or any national securities exchange shall have: (i) imposed additional material restrictions not in force as of the date hereof with respect to trading in securities generally, or to the Bonds or similar obligations; or (ii) materially increased restrictions now in force with respect to the extension of credit by or the charge to the net capital requirements of underwriters or broker-dealers such as to make it, in the reasonable judgment of the Underwriters, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or
7. A general banking moratorium shall have been declared by federal or New York or Tennessee state authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred such as to make it, in the reasonable judgment of the Underwriters, impractical or

inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

8. A downgrading or suspension of any rating (without regard to credit enhancement) by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P"), or Fitch Ratings ("Fitch") of any debt securities issued by the Issuer, or there shall have been any official statement as to a possible downgrading (such as being placed on "credit watch" or "negative outlook" or any similar qualification) of any rating by Moody's, S&P or Fitch of any debt securities issued by the Issuer, including the Bonds.

L. Payment of Expenses.

1. The Underwriters shall be under no obligation to pay, and the Issuer shall pay from available funds or from the proceeds of the Bonds or from other funds of the Issuer, certain expenses set forth in this Section that are incidental to the performance of the Issuer's obligations hereunder, including but not limited to: all expenses in connection with the printing of the Preliminary Official Statement, the Official Statement, and any amendment or supplement to either thereof; all expenses in connection with the printing, issuance, and delivery of the Bonds; the fees and disbursements of Bond Counsel, Issuer's Counsel, auditors, the fees and disbursements of the refunding trustee; all expenses in connection with obtaining a rating or ratings for the Bonds; all expenses, if any, of the Issuer in connection with the preparation, printing, execution, and delivery, and any recording or filing fees required of the Resolution, the Continuing Disclosure Undertaking, and the Refunding Trust Agreement; and any recording or filing fees required by this Purchase Agreement (excluding the costs of qualifying the Bonds for sale in various states); the Issuer's administrative fees; rating agency fees, and all other expenses and costs of the Issuer incident to its obligations in connection with the authorization, issuance, sale, and distribution of the Bonds. The Issuer will reimburse the Underwriters for expenses incidental to the issuance and sale of the Bonds, if any, incurred on behalf of the Issuer's employees.
2. The Representative shall pay the costs of qualifying the Bonds for sale in various states chosen by the Representative, all advertising expenses in connection with the public offering of the Bonds, and all other expenses incurred by it or the other Underwriters in connection with the public offering and distribution of the Bonds, including the fees and disbursements of their counsel and the cost of obtaining CUSIP numbers.
3. The Issuer shall pay for expenses (which may be included in the Underwriters' discount) incurred on behalf of Issuer's employees which are incidental to implementing this agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees.

M. Indemnity and Contribution.

1. The Issuer agrees, to the extent permitted by law, and without any representation as to the extent permitted by law, to indemnify and hold harmless the Underwriters, any member, officer, official, employee, counsel, consultant and agent of the Underwriters, and each person, if any, who controls the Underwriters within the meaning of Section 15 of the Securities Act (the "Indemnitees") against any and all losses, claims, damages, liabilities or expenses (or actions in respect thereof) (each, a "Claim") that are caused by, arise out of or are based upon any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact relating to the Issuer made, provided or certified by the Issuer or any agent thereof and contained in the Preliminary



Official Statement or the Official Statement, or caused by, arising out of or based upon any omission or alleged omission from the Preliminary Official Statement or the Official Statement of any material fact relating to the Issuer necessary in order to make the statements made therein in the light of the circumstances under which they were made not misleading, except with respect to matters described in paragraph 2 below. In case any action shall be brought against any person indemnified pursuant to this Section and in respect of which indemnity may be sought against the Issuer, such person shall promptly notify the Issuer in writing, and the Issuer shall promptly assume the defense thereof, including the employment of counsel reasonably satisfactory to such person, and the payment of all expenses, provided that the Issuer shall have the right to negotiate and consent to settlement and such person shall cooperate with the Issuer in such defense. Such person shall have the right to employ separate counsel in any such action and to ~~participate in the defense thereof, but the fees and~~ expenses of such ~~counsel shall~~ be at ~~the expense of such person unless the employment~~ of such counsel has been specifically ~~authorized by the Issuer. The Issuer shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Issuer or if there be a final judgment for the plaintiff in any such action, with or without consent, the Issuer shall indemnify and hold harmless such party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding anything above to the contrary, the Issuer shall not consent to any settlement under which an indemnified party admits guilt to any allegation without the consent of such person.~~

2. Each Underwriter severally and not jointly agrees to indemnify and hold harmless the Issuer, each of its officials, directors, officers and employees, and each person who controls the Issuer within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the Issuer to each Underwriter, but only with reference to written information furnished by the Underwriters to the Issuer or information provided by the Underwriters specifically for inclusion in the Preliminary Official Statement or the Official Statement (or in any amendment or supplement thereto).

N. **Blue Sky Qualification.** The Issuer agrees to cooperate with the Underwriters and their counsel in any endeavor to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Representative may request; provided that the Issuer shall not be required to qualify as a foreign corporation in, or submit to the jurisdiction of, any other state. The Issuer consents to the use of the Preliminary Official Statement and the Official Statement by the Representative in obtaining such qualification.

O. **No Advisory or Fiduciary Role.**

1. The Issuer acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm's-length commercial transaction between the Issuer and the Underwriters, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriters are and have been acting solely as principals and are not acting as the agent, advisor or fiduciary of the Issuer, (iii) the Underwriters have not assumed an advisory or fiduciary responsibility in favor of the Issuer with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the Issuer on other matters) and the Underwriters have no obligation to the Issuer with respect to the offering contemplated hereby other than those arising out of their role as Underwriters pursuant to the terms of this Purchase Agreement, (iv) the Issuer has consulted its own legal, financial and other advisors to the extent it has deemed

appropriate, and (v) the Underwriters have financial and other interests that differ from those of the Issuer.

2. The Issuer and the Underwriters represent and warrant, respectively, that no finder or other agent has been employed by either the Issuer or the Underwriters in connection with this transaction.

- P. **Notices.** All notices provided for in this Purchase Agreement shall be made in writing either by actual delivery of the notice into the hands of the parties entitled thereto, by confirmed facsimile transmission, or by sending the notice by air courier or mailing by certified or registered mail, return receipt requested, in the United States mail to the address as stated below (or at such other address as may have been designated by written notice) of the party entitled thereto. The notice shall be deemed to be received in case of actual delivery on the date of its actual receipt by the party entitled thereto, in case of delivery by facsimile, on the date receipt is confirmed, in case of delivery by air courier on the date of delivery, and in case of mailing on the date of receipt by United States mail, postage prepaid.

All communications hereunder, except as herein otherwise specifically provided, shall be in writing and mailed or delivered to the Issuer and to the Underwriters at the following addresses:

The Funding Board of the State of Tennessee  
16<sup>th</sup> Floor, James K. Polk Building  
505 Deaderick Street  
Nashville, Tennessee 37243-0273  
Attention: Director of State and Local Finance  
Facsimile: 615-741-5986

Morgan Stanley & Co. LLC  
440 South LaSalle St.  
One Financial Place, 37th Floor  
Chicago, IL 60605  
Attention: Mr. William Mack  
Facsimile: 312-291-5753

- Q. **Governing Law.** This Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.
- R. **Counterparts.** This Purchase Agreement may be executed in counterparts with the same force and effect as if all signatures appeared on a single instrument.
- S. **Miscellaneous.** This Purchase Agreement is made solely for the benefit of the signatories hereto (including the successors or assigns of the Underwriters) and no other person shall acquire or have any right hereunder or by virtue hereof. The term "successor" shall not include any holder of any Bonds merely by virtue of such holding. All representations, warranties, agreements, and indemnities contained in this Purchase Agreement shall remain operative and in full force and effect, regardless of delivery of and payment for the Bonds, and any termination of this Purchase Agreement.

*[signature page follows]*

Very truly yours,

MORGAN STANLEY & CO. LLC, on behalf  
of itself and as Representative of the other  
Underwriters listed in Appendix I hereto

By: *William D. Mack*  
Name: William Mack  
Title: Executive Director

ACCEPTED.

FUNDING BOARD OF THE  
STATE OF TENNESSEE

By: *[Signature]*  
Title: Comptroller of the Treasury;  
Secretary of the Funding Board of the  
State of Tennessee

Date: July 17, 2014

Time: . . . . .

APPENDIX I

To

Bond Purchase Agreement

UNDERWRITERS

**Representative and Senior Manager**

Morgan Stanley & Co. LLC

**Co-Managers**

Merrill Lynch, Pierce, Fenner and Smith Incorporated

Piper Jaffray & Co.

Wells Fargo Bank, National Association

APPENDIX II

To

Bond Purchase Agreement

\$111,065,000

GENERAL OBLIGATION BONDS, 2014 SERIES A

Maturity Date	Amount	Rate	Yield
09/01/2015	5,555,000	4.000%	0.170%
09/01/2016	5,550,000	3.000%	0.340%
09/01/2017	5,550,000	4.000%	0.630%
09/01/2018	5,550,000	4.000%	0.960%
09/01/2019	5,555,000	5.000%	1.290%
09/01/2020	5,555,000	5.000%	1.570%
09/01/2021	5,555,000	5.000%	1.850%
09/01/2022	5,555,000	5.000%	2.070%
09/01/2023	5,555,000	5.000%	2.250%
09/01/2024	5,555,000	5.000%	2.380%
09/01/2025	5,555,000	5.000%	2.480%
09/01/2026	5,555,000	5.000%	2.570%
09/01/2027	5,555,000	5.000%	2.660%
09/01/2028	5,555,000	5.000%	2.730%
09/01/2029	5,555,000	5.000%	2.810%
09/01/2030	5,555,000	5.000%	2.870%
09/01/2031	5,550,000	5.000%	2.940%
09/01/2032	5,550,000	5.000%	3.000%
09/01/2033	5,550,000	5.000%	3.060%
09/01/2034	5,550,000	5.000%	3.110%
	111,065,000		

*Optional Redemption.*

At the option of the Issuer, the 2014 Series A Bonds maturing on or after September 1, 2025 are subject to redemption prior to their respective stated maturity dates at any time on and after September 1, 2024, as a whole, or in part from time to time, in any order of maturity determined by the Issuer, at par, together with accrued interest on such principal amount to the redemption date.

**\$79,160,000**  
**GENERAL OBLIGATION BONDS, 2014 REFUNDING SERIES B**

Maturity Date	Amount	Rate	Yield
09/01/2025	17,025,000	5.000%	2.480%
09/01/2026	17,005,000	5.000%	2.570%
09/01/2027	16,980,000	5.000%	2.660%
09/01/2028	16,955,000	5.000%	2.730%
09/01/2029	11,195,000	5.000%	2.810%
	79,160,000		

*Optional Redemption.*

At the option of the Issuer, the 2014 Series B Bonds are subject to redemption prior to their respective stated maturity dates at any time on and after September 1, 2024, as a whole, or in part from time to time, in any order of maturity determined by the Issuer, at par, together with accrued interest on such principal amount to the redemption date.

13255547.3

**REFUNDING TRUST AGREEMENT**

**between**

**STATE OF TENNESSEE  
ACTING BY AND THROUGH THE  
STATE FUNDING BOARD OF THE  
STATE OF TENNESSEE**

**and**

**REGIONS BANK**

**Dated as of August 19, 2014**

**State of Tennessee  
General Obligation Bonds  
2014 Refunding Series B**

**REFUNDING TRUST AGREEMENT**  
**State of Tennessee**  
**General Obligation Bonds**  
**2014 Refunding Series B**

This Refunding Trust Agreement (the "Agreement") dated and effective as of August 19, 2014, between the STATE OF TENNESSEE (the "State"), acting by and through the STATE FUNDING BOARD OF THE STATE OF TENNESSEE (the "State Funding Board"), and REGIONS BANK (the "Refunding Trustee").

**WITNESSETH:**

WHEREAS, pursuant to a resolution adopted by the Funding Board on June 30, 2008, including as a part thereof the Series Certificate dated September 4, 2008, authorized thereby, the State has heretofore issued its General Obligation Bonds, 2008 Series A (the "2008A Prior Bonds");

WHEREAS, pursuant to a resolution adopted by the Funding Board on October 20, 2009, including as a part thereof the Series Certificate dated December 16, 2009, authorized thereby, the State has heretofore issued its General Obligation Bonds, 2009 Series C (the "2009C Prior Bonds" and, collectively with the 2008A Prior Bonds, the "Prior Bonds");

WHEREAS, pursuant to a resolution adopted by the members of the Funding Board on June 18, 2014, including as a part thereof the Series Certificate dated August 27, 2014, authorized thereby (collectively, the "Resolution"), the Funding Board has determined to refund the outstanding Prior Bonds described in Exhibit A hereto (the "Refunded Bonds"), has authorized the taking of such actions as shall be necessary and sufficient to cause the Refunded Bonds to be refunded and redeemed on their respective redemption dates in advance of maturity and has authorized the issuance and sale of \$79,160,000 principal amount of General Obligation Bonds, 2014 Refunding Series B (the "Refunding Bonds"), for such purposes;

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants herein set forth, the State, acting by and through the Funding Board, and the Refunding Trustee agree as follows:

**SECTION 1. Pledge of Bond Proceeds and Other Funds.** To provide for the payment of (i) the respective redemption prices on the respective redemption dates of the Refunded Bonds as set forth in Section 8 hereof and (ii) the interest on the Refunded Bonds due on and prior to their respective redemption dates (the aggregate of such payments required for the purposes of clauses (i) and (ii) above being herein collectively referred to as the "Defeasance Requirements") the State hereby irrevocably deposits with the Refunding Trustee, in trust for the benefit and security of the holders of the Refunded Bonds, and irrevocably pledges and sets aside exclusively for such payment, subject to the terms and conditions hereinafter set forth, the amount of \$95,281,848.57 in immediately available funds derived from the proceeds of sale of the Refunding Bonds. The Refunding Trustee acknowledges receipt of such amount, which shall be deposited by the Refunding Trustee in the Refunding Trust Fund hereinafter referred to, and invested and applied in the manner and for the purposes hereinafter set forth.



**SECTION 2. Establishment of Refunding Trust Fund; Deposit of Cash and Purchase of Eligible Securities.** There is hereby created and established with the Refunding Trustee a special and irrevocable trust fund designated the "State of Tennessee General Obligation Bonds, 2014B Refunding Trust Fund" (the "Refunding Trust Fund"), to be held in the custody of the Refunding Trustee as a trust fund, separate and apart from all other funds of the State or of the Refunding Trustee, for the benefit of the holders of the Refunded Bonds.

(a) The State hereby directs the Refunding Trustee to (i) purchase, and the Refunding Trustee agrees to purchase, on August 27, 2014, from the United States Treasury, Credit Suisse Securities (USA) LLC and Wells Fargo Securities LLC, with \$94,856,883.01 of the amount specified in Section 1 hereof, the Eligible Securities described in **Exhibit B** hereto, and (ii) retain initially uninvested, as cash, \$424,965.56 of the amount specified in Section 1 hereof, and to deposit such Eligible Securities and cash in the Refunding Trust Fund.

(b) The Eligible Securities described in subsection (b) above, and any Eligible Securities purchased pursuant to Section 4 hereof, are herein referred to collectively as the "Refunding Securities".

(c) The term "Eligible Securities" as used herein shall mean and include (i) all investments permitted for the investment of State funds under Tennessee Code Annotated Section 9-4-602 as amended from time to time, (ii) which obligations and, in the case of any Separate Trading of Registered Interest and Principal of Securities ("STRIPs"), the bonds underlying such obligations, are non-callable and not prepayable, and shall exclude mutual funds or unit investment trusts holding such obligations.

(d) The Refunding Trustee hereby acknowledges and certifies that the Refunding Securities referred to in Section 2(b) hereof have been acquired and are on deposit in the Refunding Trust Fund, and the Refunding Trustee may conclusively assume that such Refunding Securities (including those purchased pursuant to Section 4 below) are Eligible Securities.

(e) All moneys and securities on deposit in trust in the Refunding Trust Fund shall be applied to and used solely for the payment of the Defeasance Requirements of the Refunded Bonds, subject to the provisions hereof permitting the investment, reinvestment and sale of moneys and securities and payments to the State to the extent not required for such purpose. Amounts earned on the moneys and securities in the Refunding Trust Fund shall be retained therein until applied in accordance with this Agreement.

**SECTION 3. Adequacy of Amounts in Refunding Trust Fund; Additional Payments if Necessary.** The State and the Refunding Trustee hereby acknowledge receipt from Robert Thomas CPA, LLC, of a verification report, and hereby agree solely in reliance thereon, that the Refunding Securities deposited in the Refunding Trust Fund mature (without regard to any reinvestment thereof) in such amounts and at such times as are necessary and sufficient, together with other moneys held in the Refunding Trust Fund, to pay the Defeasance Requirements of the Refunded Bonds.

**The State shall deposit in the Refunding Trust Fund any amounts that may be necessary, for any reason (including but not limited to non-payment or non-timely payment under any Refunding Securities), to pay the Defeasance Requirements as and when due.**

**SECTION 4. Substitution of Refunding Securities** At the written direction of the Secretary or Assistant Secretary of the Funding Board, (1) any Refunding Securities may be sold, and (2) the maturing principal of or interest on any Refunding Securities or any other moneys on deposit in the Refunding Trust Fund may be invested or reinvested in Eligible Securities; provided, however, that concurrently with such written direction, the State shall provide the Refunding Trustee with (i) a report of a certified public accountant or financial analyst, or firm of either thereof, concluding that upon such sale, investment or reinvestment, there will remain on deposit in the Refunding Trust Fund, Refunding Securities (if any) that mature as to principal and interest (without regard to any earnings upon reinvestment of the principal thereof or upon reinvestment of investment earnings thereon) in such amounts and at such times as are necessary and sufficient, together with any moneys on deposit in the Refunding Trust Fund, to make full payment, as and when due, of the respective Defeasance Requirements payable after such sale, investment or reinvestment, which report shall set forth in reasonable detail the calculations underlying such conclusion, and (ii) an unqualified opinion of nationally recognized bond counsel to the effect that such investment or reinvestment (1) will not adversely affect the exclusion of interest on any Refunding Bond from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder, and (2) is authorized or permitted by this Agreement (which opinion may rely without further investigation on the conclusions contained in the report required by clause (i) above).

(a) Any reinvestment authorized by this Section 4 shall be accomplished by sale, transfer, request for redemption or other disposition of all or a portion of the Refunding Securities then held in the Refunding Trust Fund, if applicable, with the proceeds thereof, together with (if applicable) other moneys in the Refunding Trust Fund, being applied simultaneously to the purchase of Eligible Securities, all as specified in the written direction hereinabove provided for.

(b) Upon the purchase of any Eligible Securities pursuant to this Section, such Eligible Securities shall be deemed to constitute Refunding Securities for all purposes of this Agreement, except as the context shall otherwise require.

**SECTION 5. Evidence of Transactions** The Refunding Trustee shall deliver to the State Funding Board a copy of the document(s) evidencing each transaction relating to the Refunding Trust Fund as soon as practicable after each transaction occurs.

(a) On or before the fifteenth day of each calendar month, the Refunding Trustee shall deliver to the Funding Board a report of the financial condition of the Refunding Trust Fund as of the end of, and an operating statement for the Refunding Trust Fund for, the immediately preceding calendar month.

**SECTION 6. Refunding Trustee as Paying Agent; Payment of Defeasance Requirements on Refunded Bonds.** The Refunding Trustee acknowledges receipt of a copy of the Resolution which, among other things, appoints the Refunding Trustee as an additional paying agent for the Refunded Bonds. Regions Bank, as Refunding Trustee, hereby accepts such appointment.

(a) On the redemption and interest payment dates for the Refunded Bonds, the Refunding Trustee, as the Paying Agent for the Refunded Bonds, shall apply sufficient moneys from the matured principal of and, if necessary, interest on the Refunding Securities or moneys held in the Refunding Trust Fund to the payment of the respective Defeasance Requirements for the respective Refunded Bonds becoming due on such dates, as provided by the terms of the Refunded Bonds, specimens of which are attached hereto in Exhibit E.

**SECTION 7. Irrevocable Deposit; Express Lien.** The deposit of moneys and Refunding Securities in the Refunding Trust Fund as provided in this Agreement shall constitute an irrevocable deposit in trust solely for the payment of the respective Defeasance Requirements pursuant to the terms of the Resolution and of this Agreement, subject to the provisions hereof permitting reinvestment or substitution of securities and payment to the State of amounts not required for the purposes hereof. The registered owners of the Refunded Bonds shall have an express lien on the principal of and interest on the Refunding Securities, and on any moneys, on deposit in the Refunding Trust Fund, until the proceeds thereof are paid out, used or applied in accordance with this Agreement.

**SECTION 8. Redemption; Notices of Redemption and Refunding.** The Refunding Trustee hereby acknowledges receipt of a certified copy of the Resolution and certified copies of the resolutions referred to in the first three (3) preambles hereto. The Resolution, among other things, calls the Refunded Bonds for redemption as follows:

(i) the 2008A Refunded Bonds on September 1, 2016, at a redemption price of 100.0% of their principal amount, and

(ii) the 2009C Refunded Bonds on May 1, 2018, at a redemption price equal to 100.0% of their principal amount,

in each case together with accrued interest to the redemption date. Pursuant to the Resolution, such designations for redemption are irrevocable upon the issuance of the Refunding Bonds.

(b) Notice of redemption of the Refunded Bonds shall be given by the State Funding Board by first class mail and otherwise in the manner and at the times prescribed by the respective resolutions authorizing the issuance of the Refunded Bonds and in the respective forms set forth in Exhibit C hereto. The Refunding Trustee agrees to act as agent of the State Funding Board for the purpose of giving, and shall give, such notices of redemption as aforesaid, and also will promptly (but in any case within ten (10) business days of giving the respective notice as aforesaid) file each of such notices with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system pursuant to Securities and Exchange Commission Rule 15c2-12.

(c) The State Funding Board shall cause notices in substantially the form set forth in Exhibit D hereto to be mailed, in the same manner as the respective notices of redemption are to be mailed pursuant to the respective resolutions authorizing the Refunded Bonds, as soon as practicable after the issuance of the Refunding Bonds to each registered owner of Refunded Bonds. The Refunding Trustee agrees to act as agent of the State Funding Board for the purpose of giving, and shall give, such notices as aforesaid, and also will promptly (but in any case within ten (10) business days of mailing such notices) file each of such notices with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system pursuant to Securities and Exchange Commission Rule 15c2-12.

**SECTION 9. Excess Moneys; Termination.** Upon written direction to the Refunding Trustee (upon which the Refunding Trustee may conclusively rely) given on behalf of the State Funding Board, all amounts on deposit in the Refunding Trust Fund which are not required for the payment of the respective Defeasance Requirements shall be paid to the State as and when received and collected. Such excess amounts shall be used and applied to any of the purposes provided by the Resolution for the use and application of proceeds of the bonds authorized thereby.

(a) This Agreement shall terminate with respect to each Refunded Bond when all Defeasance Requirements for such Refunded Bond have been paid or provided for by the Refunding Trustee, as the Paying Agent for the Refunded Bonds, on their respective redemption date as provided by Section 8 hereof.

**SECTION 10. Incorporation by Reference.** The applicable and necessary provisions of the Resolution and the resolutions authorizing the Refunded Bonds are incorporated herein by reference.

**SECTION 11. Arbitrage and Tax Covenants.** Any other provision of this Agreement to the contrary notwithstanding, the State hereby covenants that it will not use, or permit the use of, any proceeds of the Refunding Bonds, if any, or of moneys or funds held by the Refunding Trustee under this Agreement, or any moneys that may be deemed to be proceeds of the Refunding Bonds pursuant to Section 103 or Section 148 of the Code or Section 103 of the Internal Revenue Code of 1954, in a manner that would cause any of the Refunding Bonds to be subjected to treatment under said Section 148 as an "arbitrage bond", and to that end the State shall comply with such regulations adopted under Section 103 and Section 148. The State further covenants that it will not take any action that will cause the interest on the Refunding Bonds or the Refunded Bonds to be included in gross income for federal income tax purposes under Sections 103 and 141 through 150 of the Code or Section 103 of the Internal Revenue Code of 1954.

**SECTION 12. Benefit of Agreement; Amendments.** This Agreement is made for the benefit of the State and the registered owners from time to time of the Refunded Bonds. This Agreement shall not be repealed, revoked, altered or amended without the written consent of all such owners and the written consent of the Refunding Trustee; provided, however, that the State, acting by and through the State Funding Board, and the Refunding Trustee may, without the consent of, or notice to, such owners, enter into such agreements supplemental to this

Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Agreement, for any one or more of the following purposes:

1. to cure any ambiguity or defect or omission in this Agreement;
2. to grant to, or confer upon, the Refunding Trustee for the benefit of such owners any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Refunding Trustee; or
3. to subject to this Agreement additional funds, securities or properties.

(b) The Refunding Trustee shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section 12, including (i) the extent, if any, to which any change, modification or addition affects the rights of the registered owners of the Refunded Bonds, (ii) the extent, if any, to which any instrument executed hereunder complies with the conditions and provisions of this Section 12 and (iii) that such supplemental agreement does not affect the tax-exempt status of any of the Refunded Bonds.

**SECTION 13. Obligations and Liabilities of the Refunding Trustee.** The Refunding Trustee may construe any of the provisions of this Agreement which may appear to it to be ambiguous or inconsistent with any other provisions hereof. Any construction of any provisions hereof by the Refunding Trustee in good faith shall be binding on the parties hereto. The Refunding Trustee may consult with counsel with respect to any question relating to its duties or responsibilities hereunder or otherwise in connection herewith and, except as expressly provided herein, shall not be liable for any action taken, suffered or omitted by the Refunding Trustee in good faith upon the advice of such counsel. The Refunding Trustee may act through agents and attorneys appointed with due care, following reasonable advance written notice to the State other than as contemplated by Sections 8(b) and (c) hereof, and shall not be responsible for any willful misconduct or negligence on the part of any such person so appointed. Any payment obligation of the Refunding Trustee hereunder shall be paid from, and is limited to, funds available hereunder; the Refunding Trustee shall not be required to expend its own funds for the performance of its duties hereunder. The Refunding Trustee shall not be responsible or liable for any failure or delay in the performance of its obligation under this Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; hurricanes or other storms; wars; terrorism; similar military disturbances; sabotage; epidemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Refunding Trustee shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

The Refunding Trustee shall act as agent for the State under this Agreement and shall hold all moneys in trust for the benefit of the holders of the Refunded Bonds as herein provided. In the performance by the Refunding Trustee of its duties as agent hereunder the Refunding Trustee shall take and perform only such actions as are specifically provided to be

taken or performed by the express provisions of this Agreement and the Refunding Trustee shall have no implied duties or obligations hereunder. The Refunding Trustee shall not be liable for any action taken or neglected to be taken in performing or attempting to perform its obligations hereunder, other than for its gross negligence or willful misconduct. Notwithstanding any provision herein to the contrary, in no event shall the Refunding Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Refunding Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

SECTION 14. Refunding Trustee Fees and Expenses. In consideration for its services hereunder, the State shall pay the Refunding Trustee, upon delivery of and payment for the Refunding Bonds, fees as described in a separate fee schedule proposed by the Refunding Trustee and accepted by the State, as amended from time to time, and upon written request of Refunding Trustee, reimburse the Refunding Trustee for its costs and expenses, including reasonable attorney's fees costs and expenses, incurred by the Refunding Trustee in connection with the performance of its duties hereunder, all as agreed to between the State and the Refunding Trustee in such fee schedule, as the same may be supplemented and amended. The State also shall pay the Refunding Trustee for any extraordinary services or expenses performed or incurred by the Trustee in connection with its duties under this Agreement if notified in writing prior to the performance of those services or the incurring of those expenses so as to allow the State to appropriate sufficient funds for their payment.

SECTION 15. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the State, the State Funding Board or the Refunding Trustee to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or covenants, or such agreement or agreements, or such portions thereof, shall be deemed severable from the remaining covenants and agreements or portions thereof provided in this Agreement and the invalidity thereof shall in no way affect the validity of other provisions of this Agreement or of the Refunded Bonds and the registered owners of the Refunded Bonds shall retain all the rights and benefits accorded them hereunder and under applicable provisions of law.

(a) If any provision of this Agreement shall be held or deemed to be or shall, in fact, be inoperative or unenforceable or invalid as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable or invalid in any other case or circumstance, or of rendering any other provision or provisions herein contained inoperative or unenforceable or invalid to any extent whatever.

SECTION 16. Law and Place of Enforcement. This Agreement shall be construed and interpreted in accordance with the laws of the State without regard to conflict of law principles.

SECTION 17. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.


SECTION 18. Section Headings. The headings of the several Sections hereof shall be solely for convenience of reference and shall not affect the meaning, construction, interpretation or effect of this Agreement.


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IN WITNESS WHEREOF, the parties have each executed or caused to be executed this Agreement by their duly authorized officers.

REGIONS BANK

FUNDING BOARD OF THE STATE  
OF TENNESSEE

By:   
Name: Paul Williams  
Title: Vice President

By:   
Name: Justin P. Wilson  
Title: Secretary



**EXHIBIT A**

**REFUNDED BONDS**

**General Obligation Bonds, 2008 Series A  
(the "2008A Refunded Bonds")**

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2025	\$ 6,290,000	4.250%	880541 JY4
2026	6,290,000	4.500	880541 JZ1
2027	6,290,000	4.500	880541 KA4
2028	<u>6,290,000</u>	4.500	880541 KB2
	<u>\$25,160,000</u>		

**General Obligation Bonds, 2009 Series C  
(the "2009C Refunded Bonds")**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2026	\$11,795,000	5.000%	880541 MT1
2027	11,795,000	5.000	880541 MU8
2028	11,795,000	5.000	880541 MV6
2029	11,795,000	5.000	880541 MW4
2030	<u>11,795,000</u>	5.000	880541 MX2
	<u>\$58,975,000</u>		

\* CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee or any fiscal agent thereof and is included solely for the convenience of the Refunding Trustee and the Refunded Bondholders. Neither the State of Tennessee nor any fiscal agent thereof, nor the Refunding Trustee, shall be responsible for the selection or use of CUSIP numbers, nor is any representation made as to its correctness on the Refunded Bonds or as indicated in this Exhibit

**EXHIBIT B**

**INITIAL REFUNDING SECURITIES**

Type of Security	Maturity Date	Par Amount	Rate	Yield	Price	Cost	Accrued Interest	Total Cost	
1	SLGS	11/01/2014	\$1,258,897	0.020%				\$ 1,258,897.00	
2	SLGS	03/01/2015	424,864	0.050				424,864.00	
3	TNote	04/30/2015	1,258,000	0.125	0.077550%	100.033119	\$1,258,416.64	\$474.31	1,258,890.95
4	TNote	08/31/2015	425,000	0.375	0.154719	100.227190	425,965.56	744.90	426,710.46
5	TNote	10/31/2015	1,259,000	1.250	0.205420	101.249536	1,274,731.66	4,746.91	1,279,478.57
6	TNote	02/29/2016	426,000	2.125	0.355191	102.702605	437,513.10	4,231.06	441,744.16
7	TNote	04/30/2016	1,267,000	0.375	0.433350	99.901321	1,265,749.74	1,433.12	1,267,182.86
8	TNote	08/31/2016	25,590,000	1.000	0.584850	100.837580	25,804,336.72	119,605.43	25,923,942.15
9	TNote	10/31/2016	1,270,000	1.000	0.668508	100.722016	1,279,169.60	3,830.71	1,283,000.31
10	TNote	04/30/2017	1,275,000	0.875	0.913926	99.896243	1,273,677.10	3,365.06	1,277,042.16
11	TNote	10/31/2017	1,281,000	0.750	1.165177	98.700000	1,264,347.00	2,897.91	1,267,244.91
12	TNote	04/30/2018	60,261,000	0.625	1.376071	97.300546	58,634,282.03	113,603.45	58,747,885.48
			\$95,995,761				\$92,918,189.15	\$254,932.86	\$94,856,883.01

Purchased directly from the United States Treasury: lines 1-2 (2).

Purchased from Credit Suisse Securities (USA) LLC: lines 3, 7-8 and 12 (4).

Purchased from Wells Fargo Securities LLC: lines 4-6 and 9-11 (6).

Total Cost: \$ 1,683,761.00

Total Cost: \$ 87,197,901.44

Total Cost: \$ 5,975,220.57

\$ 94,856,883.01

## EXHIBIT C-1

### Notice of Redemption

To Holders of  
State of Tennessee  
General Obligation Bonds, 2008 Series A  
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee, General Obligation Bonds, 2008 Series A, dated September 1, 2008, described above (the "Bonds"), that portions of the Bonds as described in the table below (the "Bonds called for redemption") have been called for redemption on September 1, 2016 (the "Redemption Date") at a redemption price equal to 100.0% of the principal amount thereof (the "Redemption Price") plus accrued interest on such principal amount to the Redemption Date.

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2025	\$ 6,290,000	4.250%	880541 JY4
2026	6,290,000	4.500	880541 JZ1
2027	6,290,000	4.500	880541 KA4
2028	<u>6,290,000</u>	4.500	880541 KB2
	<u><b>\$25,160,000</b></u>		

On the Redemption Date, the Bonds called for redemption will become and be due and payable at the Redemption Price together with accrued interest to the Redemption Date. The Redemption Price for each Bond called for redemption will be paid upon presentation and surrender thereof (unless otherwise agreed to by the State of Tennessee) at the office of Regions Bank, as a paying agent for the Bonds, as follows:

Regions Bank  
Lakeshore Operations Center  
Corporate Trust Operations  
201 Milan Parkway, 2nd Floor  
Birmingham, AL 35211  
Toll Free 1-866-512-3479

Interest due on and prior to the Redemption Date will be paid in the usual manner. On and after the Redemption Date, interest shall cease to accrue on the Bonds called for redemption.

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\* CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee or any fiscal agent thereof and is included solely for the convenience of the Bonds called for redemption. Neither the State of Tennessee nor any fiscal agent thereof, including the paying agent, shall be responsible for the selection or use of CUSIP numbers, nor is any representation made as to its correctness on the Bonds called for redemption or as indicated in this Notice.

Under the provisions of the Jobs and Growth Tax Reconciliation Relief Act of 2003, paying agents making payments of interest or principal on municipal securities may be obligated to withhold a 28% tax from remittances to individuals who have failed to furnish the paying agent with a valid taxpayer identification number. Holders of securities who wish to avoid the withholding of this tax should submit certified taxpayer identification numbers when presenting their securities for payment.

Dated this \_\_\_\_ day of \_\_\_\_\_, 2016.

STATE OF TENNESSEE

By: [Name]

Secretary, State Funding Board of the  
State of Tennessee

**EXHIBIT C-2**

**Notice of Redemption**

To Holders of  
State of Tennessee  
General Obligation Bonds, 2009 Series C  
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee, General Obligation Bonds, 2009 Series C, dated December 16, 2009, described above (the "Bonds"), that portions of the Bonds as described in the table below (the "Bonds called for redemption") have been called for redemption on May 1, 2018 (the "Redemption Date") at a redemption price equal to 100.0% of the principal amount thereof (the "Redemption Price") plus accrued interest on such principal amount to the Redemption Date.

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2026	\$11,795,000	5.000%	880541 MT1
2027	11,795,000	5.000	880541 MU8
2028	11,795,000	5.000	880541 MV6
2029	11,795,000	5.000	880541 MW4
2030	<u>11,795,000</u>	5.000	880541 MX2
	<b><u>\$58,975,000</u></b>		

On the Redemption Date, the Bonds called for redemption will become and be due and payable at the Redemption Price together with accrued interest to the Redemption Date. The Redemption Price for each Bond called for redemption will be paid upon presentation and surrender thereof (unless otherwise agreed to by the State of Tennessee) at the office of Regions Bank, as a paying agent for the Bonds, as follows:

Regions Bank  
Lakeshore Operations Center  
Corporate Trust Operations  
201 Milan Parkway, 2nd Floor  
Birmingham, AL 35211  
Toll Free 1-866-512-3479

\* CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee or any fiscal agent thereof and is included solely for the convenience of the Bonds called for redemption. Neither the State of Tennessee nor any fiscal agent thereof, including the paying agent, shall be responsible for the selection or use of CUSIP numbers, nor is any representation made as to its correctness on the Bonds called for redemption or as indicated in this Notice.

Interest due on and prior to the Redemption Date will be paid in the usual manner. On and after the Redemption Date, interest shall cease to accrue on the Bonds called for redemption.

Under the provisions of the Jobs and Growth Tax Reconciliation Relief Act of 2003, paying agents making payments of interest or principal on municipal securities may be obligated to withhold a 28% tax from remittances to individuals who have failed to furnish the paying agent with a valid taxpayer identification number. Holders of securities who wish to avoid the withholding of this tax should submit certified taxpayer identification numbers when presenting their securities for payment.

Dated this \_\_\_\_ day of \_\_\_\_\_, 2018.

STATE OF TENNESSEE

By: [Name]

Secretary, State Funding Board of the  
State of Tennessee

EXHIBIT D-1

Notice of Refunding and Financial Defeasance

To the Owners of  
State of Tennessee  
General Obligation Bonds, 2008 Series A  
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee General Obligation Bonds, 2008 Series A, dated September 1, 2008, described above (the "Bonds") (1) that the Bonds described in the table below (the "Refunded Bonds") have been irrevocably called for redemption (notice of which shall be given separately) on their redemption date of September 1, 2016, and at their redemption price of 100.0% of the principal amount thereof; (2) that there has been deposited with Regions Bank, as Refunding Trustee, moneys which, in accordance with the provisions of a resolution adopted by the Funding Board of the State of Tennessee on June 18, 2014, will be held as cash or invested in authorized investments (the "Eligible Securities"); and (3) that such Eligible Securities will be sufficient, and will be used, together with other available moneys, to pay (i) the redemption price payable on the Refunded Bonds on their redemption date and (ii) the interest on the Refunded Bonds through their redemption date.

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2025	\$ 6,290,000	4.250%	880541 JY4
2026	6,290,000	4.500	880541 JZ1
2027	6,290,000	4.500	880541 KA4
2028	<u>6,290,000</u>	4.500	880541 KB2
	<u>\$25,160,000</u>		

Dated: \_\_\_\_\_, 2014.

STATE OF TENNESSEE  
By: Justin P. Wilson  
Secretary, Funding Board of the  
State of Tennessee

\* CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee or any fiscal agent thereof and is included solely for the convenience of the Refunding Trustee and the Bondholders. Neither the State of Tennessee nor any fiscal agent thereof, nor the Refunding Trustee, shall be responsible for the selection or use of CUSIP numbers, nor is any representation made as to its correctness on the Refunded Bonds or as indicated in this Notice.

**EXHIBIT D-2**

**Notice of Refunding and Financial Defeasance**

To the Owners of  
State of Tennessee  
General Obligation Bonds, 2009 Series C  
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee General Obligation Bonds, 2009 Series C, dated December 16, 2009, described above (the "Bonds") (1) that the Bonds described in the table below (the "Refunded Bonds") have been irrevocably called for redemption (notice of which shall be given separately) on their redemption date of May 1, 2018, and at their redemption price of 100.0% of the principal amount thereof; (2) that there has been deposited with Regions Bank, as Refunding Trustee, moneys which, in accordance with the provisions of a resolution adopted by the Funding Board of the State of Tennessee on June 18, 2014, will be held as cash or invested in authorized investments (the "Eligible Securities"); and (3) that such Eligible Securities will be sufficient, and will be used, together with other available moneys, to pay (i) the redemption price payable on the Refunded Bonds on their redemption date and (ii) the interest on the Refunded Bonds through their redemption date.

<u>Maturity Date</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number*</u>
2026	\$11,795,000	5.000%	880541 MT1
2027	11,795,000	5.000	880541 MU8
2028	11,795,000	5.000	880541 MV6
2029	11,795,000	5.000	880541 MW4
2030	<u>11,795,000</u>	5.000	880541 MX2
	<u>\$58,975,000</u>		

Dated: \_\_\_\_\_, 2014.

STATE OF TENNESSEE  
By: Justin P. Wilson  
Secretary, Funding Board of the  
State of Tennessee

\* CUSIP numbers have been assigned by an organization not affiliated with the State of Tennessee or any fiscal agent thereof and is included solely for the convenience of the Refunding Trustee and the Bondholders. Neither the State of Tennessee nor any fiscal agent thereof, nor the Refunding Trustee, shall be responsible for the selection or use of CUSIP numbers, nor is any representation made as to its correctness on the Refunded Bonds or as indicated in this Notice.



**EXHIBIT E-1**

**Specimen 2008A Refunded Bonds**

**UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2008 SERIES A**

Registered  
R2008A-25-1

Registered  
\$6,290,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
September 1, 2008	4.250%	September 1, 2025	880541 JY4

Registered Owner: Cede & Co

Principal Sum: Six Million Two Hundred Ninety Thousand Dollars

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been duly called for prior redemption and payment of the redemption price shall have been duly made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum specified above commencing March 1, 2009, at the Interest Rate specified above calculated on the basis of a 30-day month and a 360-day year. Principal and redemption premium, if any, and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after September 1, 2017, shall be subject to redemption prior to their stated maturities at any time on and after September 1, 2016, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this bond at the address of the Registered Owner as shown in the bond register as kept by the State or

**UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2008 SERIES A**

Registered  
R2008A-26-1

Registered  
\$6,290,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
September 1, 2008	4.500%	September 1, 2026	880541 JZ1

Registered Owner: Cede & Co.

Principal Sum: Six Million Two Hundred Ninety Thousand Dollars

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been duly called for prior redemption and payment of the redemption price shall have been duly made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum semi-annually on March 1 and September 1 commencing March 1, 2009, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year. Principal and redemption premium, if any, and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after September 1, 2017, shall be subject to redemption prior to their stated maturities at any time on and after September 1, 2016, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this bond at the address of the Registered Owner as shown in the bond register as kept by the State or

**UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2008 SERIES A**

Registered  
R2008A-27-1

Registered  
\$6,290,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
September 1, 2008	4.500%	September 1, 2027	880541 KA4

Registered Owner: Cede & Co.

Principal Sum: Six Million Two Hundred Ninety Thousand Dollars

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been duly called for prior redemption) and payment of the redemption price shall have been duly made or provided for by the State and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum specified above on March 1 and September 1 commencing March 1, 2009, at the Interest Rate specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and redemption premium, if any, and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after September 1, 2017, shall be subject to redemption prior to their stated maturities at any time on and after September 1, 2016, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this bond at the address of the Registered Owner as shown in the bond register as kept by the State or

UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2008 SERIES A

Registered  
R2008A-28-1

Registered  
\$6,290,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
September 1, 2008	4.500%	September 1, 2028	880541 KB2

Registered Owner: Cede & Co.

Principal Sum: Six Million Two Hundred Ninety Thousand Dollars

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assignee, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been duly called for prior redemption and payment of the redemption price shall have been duly made or provided for) upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or the State appointed for the purpose, and to pay interest on the Principal Sum specified above annually on March 1 and September 1 commencing March 1, 2009, at the Interest Rate specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and redemption premium, if any, and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after September 1, 2017, shall be subject to redemption prior to their stated maturities at any time on and after September 1, 2016, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this bond at the address of the Registered Owner as shown in the bond register as kept by the State or

redemption may be made conditional upon the availability of sufficient moneys to pay the redemption price, plus interest accrued and unpaid to the redemption date. Notice having been given in the manner provided, the bonds or portions thereof so called for redemption shall become due and payable on the redemption date specified in such notice, subject to such conditional notice provisions. If such notice shall have been given and payment hereof duly made or provided for, interest hereon shall cease to accrue and become payable from and after the date so specified for the redemption hereof. Upon presentation and surrender of this bond at the office specified in such notice, together with, in the case this bond is presented by other than the Registered Owner, a written instrument of transfer duly executed by the Registered Owner or the Registered Owner's duly authorized representative, this bond, or portions hereof, so called for redemption shall be paid at the redemption price set forth above. If less than all of this bond shall be redeemed, the State shall execute and deliver, upon the surrender of this bond, without charge to the Registered Owner hereof, for the unredeemed balance of the principal amount of this bond so surrendered, registered bond(s) of like maturity in authorized denominations.

Notwithstanding the foregoing, so long as The Depository Trust Company or its nominee ("DTC"), or any substitute depository, or successor, is the Registered Owner of this bond as securities depository under the resolution hereinafter mentioned, notice of redemption may be given in the manner, and presentation and surrender of this bond may be waived to the extent, agreed to by the State and DTC, or any substitute depository, or successor, as the case may be.

This bond shall have the qualities and incidents of a negotiable instrument. This bond shall be transferable only upon the bond register kept by the State or its agent, by the Registered Owner or Registered Owner's duly authorized representative in writing, upon presentation and surrender to the State or its agent of this bond together with a written instrument of transfer satisfactory to the State, as required by the Registered Owner or the Registered Owner's duly authorized representative, only in the manner, subject to the limitations and upon payment of the charges, if any, as provided in the resolution of the Funding Board of the State of Tennessee authorizing the issuance of the bonds of the issue of which this bond is one, and upon surrender hereof for cancellation. Upon the transfer of this bond, the State shall authenticate and deliver in the name of the transferee a new registered bond or bonds of the same series, aggregate principal amount, interest rate and maturity as this bond.

The State may treat the person in whose name this bond is registered on the registry books as the absolute owner of this bond for all purposes, including payment, notwithstanding any notice to the contrary.

This bond is one of an issue of bonds aggregating \$125,800,000 of like date, issued under and pursuant to and in full compliance with the Constitution and laws of the State of Tennessee, including but not limited to various Public Acts of Tennessee and Title 9, Chapter 9, Tennessee Code Annotated, and a resolution adopted by the Funding Board of the State of Tennessee on June 30, 2008, including as a part thereof a Series Certificate executed and delivered on September 4, 2008 (collectively, the "Resolution"), to provide for the payment at maturity of a portion of the State's outstanding general obligation bond anticipation notes constituting commercial paper and for public purposes of various State departments and institutions. Reference is made to the Resolution, to all of the provisions of which the Registered

Owner, by acceptance hereof, hereby assents, for all terms and provisions of this bond not set forth herein.

This bond and the issue of which it is one are direct general obligations of the State for the payment of which as to both principal and interest the full faith and credit of the State is pledged. As additional security for principal of and interest on the bonds, there is also pledged the annual proceeds of a tax of up to five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon on petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the State; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the State. All of the bonds of the issue of which this bond is one, together with interest thereon, are entitled to the benefit of the foregoing taxes, fees and revenues and to share therein pro rata with any other obligations of the State that might be entitled to share therein as provided by Sections 9-9-101 to 9-9-208, inclusive, Tennessee Code Annotated, as amended.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this bond exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State, and that the amount of this bond, together with all other indebtedness of the State, does not exceed any constitutional or statutory limitation thereon, and that this bond is within every constitutional and statutory limitation.

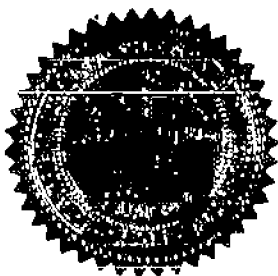
[Continued on following Page]

**SPECIMEN**

IN WITNESS WHEREOF, the Funding Board of the State of Tennessee has caused this bond to be executed in the name of the State by the manual or facsimile signature of the Governor, the State Treasurer, the Secretary of State, the Comptroller of the Treasury, or the Assistant Secretary of the Funding Board of the State of Tennessee, and countersigned by the manual or facsimile signature of one other of such officers, one of which signatures shall be manual, with the Great Seal of the State of Tennessee, or a facsimile thereof, attached hereto or impressed or imprinted hereon, and this bond to be dated as of the Bond Date specified above.

STATE OF TENNESSEE

By: Dale Surr  
Authorized Officer



Countersigned:

By: John G. Moore  
Authorized Officer

**SPECIMEN**



**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto

Please insert social  
security or other tax  
identifying number of  
assignee

\_\_\_\_\_  
(name and address of assignee)

the within-mentioned bond and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney-in-fact, to transfer the same on the bond register in the office of the Comptroller of the Treasury of the State of Tennessee or an agent of the State appointed for the purpose, with full power of substitution in the premises.

Date: \_\_\_\_\_

\_\_\_\_\_  
(name of assignor)

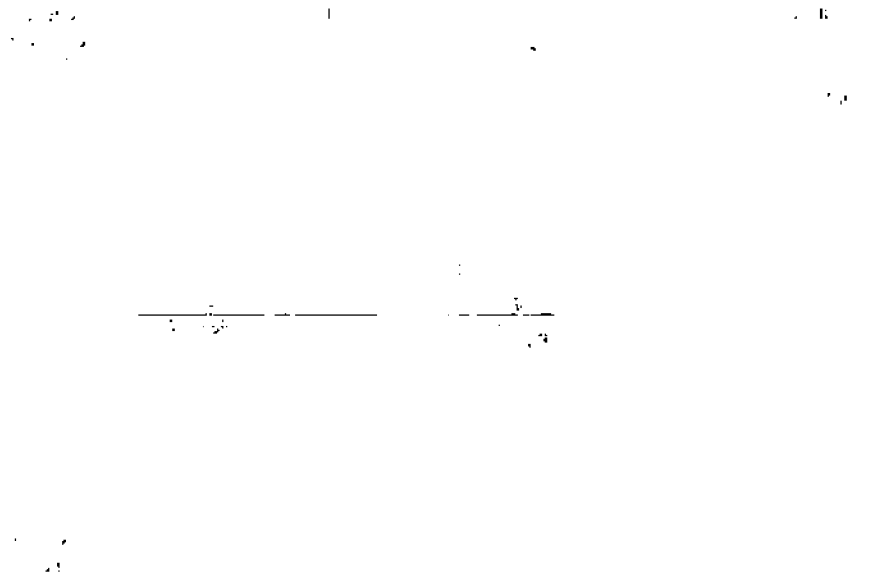
\_\_\_\_\_  
(address of assignor)

Signature Guaranteed.  
\_\_\_\_\_  
\_\_\_\_\_

**NOTE:** The signature to this assignment must correspond with the name as written on the face of the within Bond in every particular, without alteration, enlargement or any change whatsoever.

**EXHIBIT E-2**

**Specimen 2009C Refunded Bonds**



UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2009 SERIES C

Registered  
R09C-26-1

Registered  
\$11,795,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
December 16, 2009	5.000%	May 1, 2019	880541MT1

Registered Owner: Cede & Co.

Principal Sum: ELEVEN MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been called for prior redemption and payment of the redemption price shall have been made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum semi-annually on May 1 and November 1 commencing May 1, 2010, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after May 1, 2019, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2018, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this Bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this Bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this

**UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2009 SERIES C**

Registered  
R09C-27-1

Registered  
\$11,795,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
December 16, 2009	5.000%	May 1, 2019	880541MU8

Registered Owner: Cede & Co.

Principal Sum: ELEVEN MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been duly called for prior redemption and payment of the redemption price shall have been duly made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum semi-annually on May 1 and November 1 commencing May 1, 2010, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after May 1, 2019, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2018, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this Bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this Bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this

**UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2009 SERIES C**

Registered  
R09C-28-1

Registered  
\$11,795,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
December 16, 2009	5.000%	May 1, 2019	880541MV6
Registered Owner: Cede & Co.			
Principal Sum: ELEVEN MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS			

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been called for prior redemption and payment of the redemption price shall have been duly made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum semi-annually on May 1 and November 1 commencing May 1, 2010, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after May 1, 2019, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2018, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this Bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this Bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this

**UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2009 SERIES C**

Registered  
R09C-29-1

Registered  
\$11,795,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
December 16, 2009	5.000%	May 1, 2010	880541MW4
Registered Owner: Cede & Co.			
Principal Sum: ELEVEN MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS			

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been called for prior redemption and payment of the redemption price shall have been made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose, and to pay interest on the Principal Sum semi-annually on May 1 and November 1 commencing May 1, 2010, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after May 1, 2019, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2018, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this Bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this Bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this

UNITED STATES OF AMERICA  
STATE OF TENNESSEE  
GENERAL OBLIGATION BOND  
2009 SERIES C

Registered  
R09C-30-1

Registered  
\$11,795,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
December 16, 2009	5.000%	May 1, 2019	880541MX2

Registered Owner: Cede & Co.

Principal Sum: ELEVEN MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS

THE STATE OF TENNESSEE (the "State") hereby acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner hereof named above, or registered assigns, the Principal Sum specified above on the Maturity Date specified above (unless this bond shall have been duly called for prior redemption and payment of the redemption price shall have been duly made or provided for), upon presentation and surrender hereof to the State Treasurer in Nashville, Tennessee, or other agent of the State appointed for the purpose; and to pay interest on the Principal Sum semi-annually on May 1 and November 1 commencing May 1, 2010, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year. Principal of and interest on this bond are payable in any coin or currency of the United States of America, which at the time of such payment is legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on and after May 1, 2019, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2018, at the option of the State, in installments of \$5,000 or any integral thereof, as a whole, or in part from time to time in any order of maturity determined by the State and by lot within a maturity, at a redemption price equal to the principal amount or portion thereof to be redeemed, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption.

If this Bond (or a portion hereof in installments of \$5,000 or any integral multiple thereof) is redeemable and shall be called for redemption, notice of the redemption hereof, specifying the designation, date, number, and maturity of this Bond, the date and place fixed for its redemption, principal amount to be redeemed if less than the entire principal amount hereof, and the redemption price payable upon such redemption, shall be given not less than 30 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of this

bond at the address of the Registered Owner as shown in the bond register as kept by the State of its agent as of the 45th calendar day preceding the redemption date. Any notice of optional redemption may be made conditional upon the availability of sufficient moneys to pay the redemption price, plus interest accrued and unpaid to the redemption date. Notice having been given in the manner provided, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date specified in such notice, subject to such conditional notice provisions. If such notice shall have been given and payment hereof duly made or provided for, interest hereon shall cease to accrue and become payable from and after the date so specified for the redemption hereof. Upon presentation and surrender of this Bond at the office specified in such notice, together with, in the case this bond is presented by other than the Registered Owner, a written instrument of transfer duly executed by the Registered Owner or the Registered Owner's duly authorized representative, this Bond or portions hereof, so called for redemption shall be paid at the redemption price set forth above. If less than all of this Bond shall be redeemed, the State shall execute and deliver, upon the surrender of this Bond, without charge to the Registered Owner hereof, for the unredeemed balance of the principal amount of this Bond so surrendered, registered Bond(s) of like maturity in authorized denominations.

Notwithstanding the foregoing, so long as a Depository Trust Company or its nominee ("DTC"), or any substitute depository or successor, is the Registered Owner of this Bond as securities depository under the resolution hereinafter mentioned, notice of redemption may be given in the manner, and presentation and surrender of this Bond may be waived to the extent, agreed to by the State and DTC or any substitute depository, or successor, as the case may be.

This Bond shall have the qualities and incidents of a negotiable instrument. This bond shall be transferable only upon the bond register kept by the State or its agent, by the Registered Owner or Registered Owner's duly authorized representative in writing, upon presentation and surrender to the State or its agent of this Bond together with a written instrument of transfer satisfactory to the State duly executed by the Registered Owner or the Registered Owner's duly authorized representative but only in the manner, subject to the limitations and upon payment of the charges, if any, as provided in the resolution of the Funding Board of the State of Tennessee authorizing the issuance of the Bonds, and upon surrender hereof for cancellation. Upon the transfer of this Bond, the State shall authenticate and deliver in the name of the transferee a new registered Bond or Bonds of the same series, aggregate principal amount, interest rate and maturity as this Bond.

The State may treat the person in whose name this Bond is registered on the registry books as the absolute owner of this Bond for all purposes, including payment, notwithstanding any notice to the contrary.

This Bond is one of an issue of Bonds aggregating \$235,890,000 of like date, issued under and pursuant to and in full compliance with the Constitution and laws of the State of Tennessee, including but not limited to various Public Acts of Tennessee and Title 9, Chapter 9, Tennessee Code Annotated, and a resolution adopted by the Funding Board of the State of Tennessee on October 20, 2009, including as a part thereof a Series Certificate executed and delivered on December 16, 2009 (collectively, the "Resolution"), to fund certain capital projects and to provide for the payment at maturity of a portion of the State's outstanding general obligation bond anticipation notes



constituting commercial paper for public purposes of various State departments and institutions. Reference is made to the Resolution, to all of the provisions of which the Registered Owner, by acceptance hereof, hereby assents, for all terms and provisions of this Bond not set forth herein.

This Bond and the issue of which it is one are direct general obligations of the State for the payment of which as to both principal and interest the full faith and credit of the State is pledged. As additional security for principal of and interest on the Bonds, there is also pledged the annual proceeds of a tax of up to five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon on petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the State; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the State. All of the Bonds, together with interest thereon, are entitled to the benefit of the foregoing taxes, fees and revenues and to share therein pro rata with any other obligations of the State that might be entitled to share therein as provided by Sections 9-9-101 to 9-9-203 inclusive, Tennessee Code Annotated, as amended.

IT IS HEREBY CERTIFIED, RECEIVED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State, and that the amount of this Bond, together with all other indebtedness of the State, does not exceed any constitutional or statutory limitation thereon, and that this bond is within every constitutional and statutory limitation.

IN WITNESS WHEREOF, the Funding Board of the State of Tennessee has caused this Bond to be executed in the name of the State by the manual or facsimile signature of the Governor, the State Treasurer, the Secretary of State, the Comptroller of the Treasury, or the Assistant Secretary of the Funding Board of the State of Tennessee, and countersigned by the manual or facsimile signature of one other of such officers, one of which signatures shall be manual, with the Great Seal of the State of Tennessee, or a facsimile thereof, attached hereto or impressed or imprinted hereon, and this bond to be dated as of the Bond Date specified above.

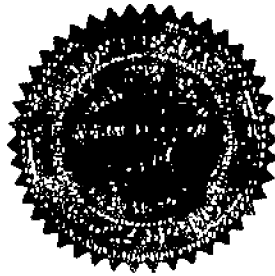
STATE OF TENNESSEE

(SEAL)

By: Phil Ruck  
Authorized Officer

Countersigned:

By: [Signature]  
Authorized Officer



**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto

Please insert social  
security or other tax  
identifying number of  
assignee

\_\_\_\_\_  
(name and address of assignee)

the within-mentioned bond and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney-in-fact, to transfer the same on the bond register in the office of the Comptroller of the Treasury of the State of Tennessee or an agent of the State appointed for the purpose, with full power of substitution in the premises.

Date: \_\_\_\_\_

\_\_\_\_\_  
(name of assignor)

\_\_\_\_\_  
(address of assignor)

Signature guaranteed  
\_\_\_\_\_  
\_\_\_\_\_

**SPECIMEN**

**NOTE:** The signature to this assignment must correspond with the name as written on the face of the within Bond in every particular, without alteration, enlargement or any change whatsoever.

## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is dated and made as of August 19, 2014, by the State of Tennessee (the "State") in connection with the issuance of the State's \$111,065,000 aggregate principal amount of General Obligation Bonds, 2014 Series A, and \$79,160,000 aggregate principal amount of General Obligation Bonds, 2014 Refunding Series B (collectively, the "Bonds"). As authorized by Section 10 of the resolution (the "Bond Resolution") of the Funding Board of the State of Tennessee (the "Funding Board") adopted on June 18, 2014, authorizing the Bonds, the State agrees as follows:

### ARTICLE I

#### Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means (i) updated versions of the following financial information and operating data contained in, or incorporated by reference pursuant to an Appendix to, the Official Statement with respect to the State, for each fiscal year of the State:

- Total Special Tax Collections
- Total Sales and Use Tax Collections
- Allocation of Sales and Use Tax to Debt Service
- Outstanding General Obligation Bonded Indebtedness
- Long-Term General Obligation Bonded Debt Service by Fiscal Year and Maturity
- ~~Maximum~~ and Actual Principal Amounts of Commercial Paper **Outstanding**
- Other Post-Employment Benefits
  - Unfunded Actuarial Liability
  - Annual Required Contribution
- Rainy Day Fund Reserve Balance
- TennCare Budget Growth
- Tennessee Consolidated Retirement System
  - Statistical data
  - Tables
- Debt of Certain Agencies and Authorities
  - Tennessee Local Development Authority
  - Tennessee State School Bond Authority
  - Tennessee Housing Development Agency
  - Watkins Institute
  - State Veterans' Homes Board

- The statistical data incorporated by reference in Appendix B to the Official Statement

and (ii) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) “Audited Financial Statements” means the annual financial statements of the State, audited by the Comptroller of the Treasury, Division of State Audit, as now required by State law (or such other auditor as hereafter may be required or permitted by State law). Audited Financial Statements shall be prepared in accordance with GAAP.

(3) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to the State.

(4) “EMMA” means the MSRB’s Electronic Municipal Market Access system or its successor.

(5) “GAAP” means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b) of the Securities Exchange Act of 1934, as amended, or any successor to the MSRB or the functions of the MSRB contemplated by this Undertaking.

(7) “Notice Event” means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service 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 the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Bondholders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

- (xiii) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
  - (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (8) "Notice Event Notice" means notice of a Notice Event.

(9) "Official Statement" means the Official Statement dated July 17, 2014 of the State relating to the Bonds.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the effective date hereof, including any official interpretations thereof.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

## ARTICLE II

### The Undertaking

Section 2.1. Purpose. This Undertaking is being executed, delivered and made solely to assist the underwriters of the Bonds in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. The State shall provide Annual Financial Information with respect to each fiscal year of the State, commencing with the fiscal year ending June 30, 2014, by no later than 7 months after the end of the respective fiscal year, to the MSRB.

(a) The State shall provide, in a timely manner, notice of any failure of the State to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof because not available, the State shall provide Audited Financial Statements, when and if available, to the MSRB.

Section 2.4. Notice Events. If a Notice Event occurs, the State shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, a Notice Event Notice to the MSRB.

(a) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The State acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the State and that, under some circumstances, additional disclosures or other action in addition to those required by this Undertaking may be required to enable the State to fully discharge all of its duties and obligations under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Notice Event Notice, in addition to that which is required by this Undertaking. If the State chooses to do so, the State shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

Section 2.7. Previous Compliance. The State represents that except as may be disclosed in the Official Statement, within the five (5) years preceding the date of the Official Statement it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

### ARTICLE III

#### Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the State provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The provisions of this Section shall not apply to Notice Event Notices pursuant to Section 2.4 hereof.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Filing with Certain Dissemination Agents or Conduits. The State may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the State under this Undertaking, and revoke or modify any such designation.

Section 3.4. Transmission of Notices, Documents and Information. Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(a) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

Section 3.5. Fiscal Year. The State's current fiscal year is July 1 – June 30. The State shall promptly notify the MSRB of each change in its fiscal year.

(a) The State shall provide Annual Financial Information at least annually notwithstanding any fiscal year longer than 12 calendar months.

## ARTICLE IV

### Effective Date, Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination. This Undertaking shall be effective upon the issuance of the Bonds.

(a) The State's obligations under this Undertaking shall terminate with respect to each Bond upon the legal defeasance, prior redemption or payment in full of such Bond.

(b) This Undertaking, or any provision hereof, shall be null and void in the event that the State (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Undertaking, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 4.2. Amendment. This Undertaking may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the State or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the State shall have received either an opinion of Counsel or a determination by a person, in each case unaffiliated with the State, to the effect that the amendment does not materially impair the interests of the holders of the outstanding Bonds, and (5) the State shall have delivered copies of such opinion(s) and amendment to the MSRB.

(a) This Undertaking may be amended without the consent of the holders of the Bonds if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Undertaking, (2) the State shall have received an opinion of Counsel to the effect that performance by the State under this Undertaking as so amended will not result in a violation of the Rule as so amended or officially interpreted and (3) the State shall have delivered copies of such opinion and amendment to the MSRB.

(b) To the extent any amendment to this Undertaking results in a change in the categories or types of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(c) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the State in preparing its financial statements, the



Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. ~~Contract; Benefit; Third-Party Beneficiaries; Enforcement.~~ The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking and shall be deemed to be holders of Bonds for purposes of Section 4.3(b) hereof. The provisions of this Undertaking shall create no rights in any person or entity except as provided in this subsection (a).

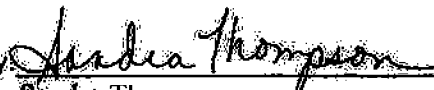
(a) The obligations of the State to comply with the provisions of this Undertaking shall be enforceable by any holder of outstanding Bonds; however, the holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the State's obligations under this Undertaking.

(b) Any failure by the State to perform in accordance with this Undertaking shall not constitute a default or an event of default under the Bond Resolution or State law and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Bond Resolution and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

(c) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 4.4. Effective Date. This Undertaking shall be effective upon the issuance and delivery by the State of the Bonds.

STATE OF TENNESSEE

By  \_\_\_\_\_  
Sandra Thompson  
Assistant Secretary, Funding Board  
of the State of Tennessee, and  
Director, Office of State and Local Finance,  
State of Tennessee

## Report on Requests for Approval - Balloon Indebtedness

Type of Balloon Indebtedness Plan	Number of Plans Received	Number of Plans Approved	Number of Plans Not Approved
Advance Refunding	11	11	-
Current Refunding	6	6	-
Refunding with New Money	2	1	1
New Money Bonds (includes PBA Loans)	9	9	-
<b>Total Plans Received</b>	<b>28</b>	<b>27</b>	<b>1</b>

The Office of State and Local Finance received requests for approval for 28 plans of balloon indebtedness.

- 19 of the 28 plans submitted were for the issuance of refunding bonds.
- Of the 19 refundings, 11 were advance refundings, 6 were current refundings, and 2 were refundings to be issued with new money bonds.
- 9 of the 28 plans were for the issuance of new money bonds.
- 10 of the plans were classified as balloon debt because the debt obligation includes a put option provision that allows the debt holder to require the issuer to take back the debt obligation. This indebtedness structure shall be exempt from the Comptroller's approval process if certain requirements are met by the debt obligation.
- Of the 10 put options plans, 6 were new money issues and 4 were current refundings.

### Plans Approved

The Office approved 27 of the 28 submitted plans.

### Plans Not Approved

One plan (a refunding with new money bonds) was not approved due to a back-loaded amortization schedule. The transaction was not deemed to be in the public's interest. The debt was subsequently restructured and issued without balloon indebtedness.

### Advance Refundings

- 10 of the 11 advance refunding plans had amortization schedules with accelerated principal repayment (the weighted average maturity (WAM) of the refunding debt did not exceed the WAM of the refunded debt), the final maturity of the refunding debt did not extend beyond the final maturity of the refunded debt, and the refunding produced net present value savings.
- 1 of the 11 advance refunding plans was presented for approval for restructuring for cash flow and budgeting purposes.