

TENNESSEE STATE FUNDING BOARD

JUNE 9, 2016

AGENDA

1. Call meeting to order
2. Approval of the minutes from the May 9, 2016, meeting
3. Presentation and consideration for approval of the Tennessee Housing Development Agency's Schedule of Financing for Fiscal Year 2016-2017
4. Report from the Department of Economic and Community Development (ECD) for approval of funding for the following projects:
 - **Agero Administrative Service Corp. – Blountville (Sullivan County)**

FastTrack Job Training Assistance	\$ 438,750
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 - **Hankook Tire America Corp. – Nashville (Davidson County)**

FastTrack Economic Development	\$2,715,000
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 - **The Harris Soup Company dba Harry's Fresh Foods – Nashville (Davidson County)**

FastTrack Job Training Assistance	\$ 50,000
FastTrack Economic Development	\$ 950,000
 - **To Be Announced**

FastTrack Economic Development	\$5,500,000
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 - **Morgan Olson, LLC – Loudon (Loudon County)**

FastTrack Job Training Assistance	\$ 500,000
FastTrack Economic Development	\$2,000,000
5. Approval of a “Resolution Allocating Funds to Defray a Portion of the Cost of Highway Bridge Construction Projects and to Canceling Authorized Bonds”
6. Approval of a “Resolution Allocating From the Debt Service Fund to the Capital Projects Fund \$3,524,992.81 and Canceling Authorized Bonds”
7. Approval of a “Resolution Certifying and Authorizing the Allocation of Funds to the Sinking Fund for the 2016-17 Fiscal Year”
8. Approval of a “Resolution Allocating Funds to Defray a Portion of the Cost of Highway Construction Projects and to Canceling Authorized Bonds”
9. Approval of a “Resolution Authorizing the Issuance of General Obligation Bonds of the State of Tennessee”
10. Consideration for Approval of a “Resolution Authorizing Amended and Restated Standby Commercial Paper Purchase Agreement and Updated Commercial Paper Offering Memorandum”
11. Tennessee Consolidated Retirement System (TCRS) affirmation of Standby Commercial Paper Agreement
12. Consideration for 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 the Comptroller to sell and fix the details of the bonds

TENNESSEE STATE FUNDING BOARD
May 9, 2016

The Tennessee State Funding Board (the “Board”) met on Monday, May 9, 2016, at 11:00 a.m., in the Executive Conference Room, State Capitol, 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
Commissioner Larry Martin, Department of Finance and Administration

The following members were absent:

The Honorable Bill Haslam, Governor
The Honorable David Lillard, State Treasurer

Seeing a physical quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the April 7, 2016, meeting. Commissioner Martin made a motion to approve the minutes. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson stated there was a need to correct and clarify the minutes from the April 7, 2016, Board meeting regarding the approval of the revisions to the State Pooled Investment Fund (SPIF) Investment Policy. Mr. Wilson made the motion to correct the minutes to reflect that the SPIF Investment Policy was effective as of the meeting date, April 7, 2016, however, there would be a transition period to bring the SPIF investments into compliance by June 30, 2016. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Allen Borden, Assistant Commissioner, Tennessee Department of Economic and Community Development (“ECD”), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Senior Advisor for Fiscal Policy, ECD, to present the FastTrack funding report. Mr. VanderMeer reported that, as of the date of the last Board meeting, the FastTrack balance was \$144,971,726.35 and since that time new appropriations of \$23,000,000.00 had been received; \$710,835.94 in funds had been deobligated and returned to the FastTrack program; and \$4,999,890.00 in new loans had been approved, which resulted in an adjusted FastTrack balance available for funding grants or loans of \$163,682,672.29 as of today's meeting. Mr. VanderMeer reported that commitments had been made in the amount of \$140,892,323.54, resulting in an uncommitted FastTrack balance of \$22,790,348.75. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$3,266,000.00, and if these projects were approved, the uncommitted balance would be \$19,524,348.75, or 88.1% of FastTrack funds committed.

Mr. Borden stated that the projects were being presented to 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. Commissioner Boyd then presented the following FastTrack projects:

- **AmeriTeam Services, LLC (TeamHealth) – Knoxville (Knox Co.)**
FastTrack Economic Development \$1,250,000
- **CKE Restaurants Holdings, Inc. – Franklin (Williamson Co.)**
FastTrack Economic Development \$2,016,000

Mr. Wilson stated that the Board received a signed letter from the Commissioner of ECD, which stated that the projects met all the statutory requirements, and a signed FastTrack Checklist for each of 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 how much of the \$2,016,000 FastTrack Economic Development funds for the CKE project would be spent on relocation fees. Mr. Hargett also inquired, in relation to the CKE project, how many of the 126 new jobs being reported would be filled by people relocating from California, which is where the current headquarters is located. Jamie Stitt, Deputy Assistant Commissioner of Business Development, ECD, stated that the revised application submitted by CKE requested to utilize the FastTrack Economic Development funds for construction of the test kitchen and to retrofit office space. Mr. Borden stated that none of the FastTrack Economic Development funds would be used for relocation costs even though the funds would qualify for that use. Ms. Stitt also explained that the CKE project was projected to create more than 100 new jobs for Tennesseans. Mr. Hargett asked that, in the future, information about the number of jobs that would be filled by individuals who are relocating with the company be included in the information provided to Funding Board members. Mr. Borden said that ECD would include this information in the future. Mr. Martin asked about how CKE had made the decision to relocate the corporate headquarters to Tennessee. Mr. Borden explained that CKE had approached, and expressed interest in relocating to, the state of Tennessee.

Mr. Wilson made a motion to approve the FastTrack projects presented. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then explained that the Comptroller's Office had, on behalf of the Funding Board, executed the five year contract with Hawkins Delafield & Wood LLP which commenced on May 1, 2016.

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

Approved on this _____ day of _____ 2016.

Respectfully submitted,

Sandra Thompson
Assistant Secretary



Tennessee Housing Development Agency

Andrew Jackson Building, Third Floor
502 Deaderick Street, Nashville, TN 37243

Bill Haslam
Governor

Ralph M. Perrey
Executive Director

MEMORANDUM

DATE: May 25, 2016
TO: Sandi Thompson
FROM: Lynn Miller *LM*
SUBJECT: Tennessee Housing Development Agency
Schedule of Financing for Fiscal Year 2016-2017

Pursuant to Tennessee Code Annotated Section 13-23-120(e)(1), I am attaching herewith THDA's Schedule of Financing for the referenced fiscal year. This Schedule of Financing was approved by the Bond Finance Committee of THDA at its meeting on May 23, 2016, and by THDA's Board of Directors at its meeting on May 24, 2016.

The above-referenced statutory section requires that this Schedule of Financing be submitted to the State Funding Board. I am, therefore, requesting that you place this item on the agenda for the meeting of the State Funding Board meeting scheduled on June 9, 2016.

Should you have any questions or comments, please feel free to call.

LEM/ds

Attachment

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2016-2017
SUMMARY

The Tennessee Housing Development Agency (“THDA”) is required, under Tennessee Code Annotated Section 13-23-120(e)(1), to submit a schedule to the State Funding Board showing financings proposed for the fiscal year. The proposed schedule for fiscal year 2016-2017 is attached.

Total amount of bonds or notes reflected on Schedule of Financing for Fiscal Year 2016-2017:	\$ 458,000,000
Total amount of bonds reflected on schedule, designed to produce proceeds for mortgage loans:	\$ 330,000,000
Total amount of bonds or notes reflected on schedule related to refunding (not expected to produce proceeds for mortgage loans this fiscal year):	\$ 128,000,000

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2016-2017

ISSUE 2016-2 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
August 2016

Sources of Funds

Proceeds of the Issue	\$ 125,000,000
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Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 125,000,000
Bond Reserve Funds)
Underwriting Fee/Bond Discount)
Capitalized Interest)
Cost of Issuance)
	\$ THDA contribution, or no more than 1% of bond proceeds, or a combination thereof

ISSUE 2016-3 - RESIDENTIAL FINANCE PROGRAM BONDS – REFUNDING/NEW VOLUME CAP
November 2016

Sources of Funds

Proceeds of the Issue	\$ 166,500,000
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Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 166,500,000
Bond Reserve Funds)
Underwriting Fee/Bond Discount)
Capitalized Interest)
Cost of Issuance)
	\$ THDA contribution, or no more than 1% of bond proceeds, or a combination thereof

**ISSUE 2017-1 - RESIDENTIAL FINANCE BONDS – REFUNDING/NEW VOLUME CAP
March 2017**

Sources of Funds

Proceeds of the Issue \$ 166,500,000

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds \$ 166,500,000

Bond Reserve Funds)	
Underwriting Fee/Bond Discount)	\$ THDA contribution, or no more than 1% of
Capitalized Interest)	bond proceeds, or a combination thereof
Cost of Issuance)	

Single Family Bonds Sold in FY 2015-2016

	\$ 175,000,000	Issue 2015-2 Residential Finance Program Bonds, dated October 15, 2015
	\$ 125,000,000	Issue 2016-1 Residential Finance Program Bonds, dated May 18, 2016
	<hr/>	
TOTAL	\$ 300,000,000	(includes approximately \$67,130,000 in refundings)

Multifamily Bonds Sold in FY 2015-2016 \$ 0

**Volume Cap Used by Local Issuers
For Multi-Family Housing in 2015** \$ 118,093,000 From THDA’s 2015 Volume Cap Allocation

**Volume Cap Available to Local Issuers
For Multi-Family Housing in 2016** \$ 150,000,000 From THDA’s 2016 Volume Cap Allocation

ASSUMPTIONS

1. A bond issue may include any structure authorized by the Board and approved by the Bond Finance Committee, including, without limitation, convertible option bonds, short term notes, variable rate debt, taxable debt, planned amortization class bonds.
2. Dates of bond issues are based on estimated absorption of available funds and expected need for additional funds for three to four months, subject to the actual rate at which mortgage loans are currently being financed.
3. THDA anticipates taking the maximum spread allowed under federal law for each bond issue, which is 112 basis points. The maximum spread could, however, be reduced based on program requirements at the time of sale. Interest rates for THDA loans could be further subsidized.
4. THDA anticipates future bonds will be issued under the 2013 General Resolution to continue to reduce the moral obligation of the state for THDA bonds.
5. The volume cap assumption is that 35% of the annual total tax-exempt bond authority amount available in Tennessee is made available to THDA at the beginning of each calendar year. This is the allocation to THDA for all tax-exempt housing bond issuance in the state in the current Department of Economic and Community Development plan. For bond issues in calendar year 2016, volume cap carried forward from 2013 will be used. THDA currently has \$593,169,126 in 2013 carried forward volume cap available. For bond issues in calendar year 2017, volume cap THDA carried forward from 2014 will be used. THDA currently has \$624,523,000 in 2014 carried forward volume cap available. Unused 2013 volume cap will be made available for the THDA Mortgage Credit Certificate Program by making the required elections on or before December 31, 2016.
6. A THDA contribution may be made with each bond issue as needed to over-collateralize the bond issue for the benefit of THDA borrowers, to fund required reserves, to pay cost of issuance and to ensure that the maximum amount of bond proceeds is used to fund mortgage loans. The amount and source of the THDA contribution is determined at the time it is needed. The amount of the contribution, if needed, is based on the structure of the bond issues, an analysis of debt service requirements of the general resolution under which the bonds are issued, the fee paid to underwriters and an estimate of other costs of issuance expected to be incurred. The source of such THDA contribution is funds available for such purpose under the 2013 General Resolution, 1985 General Resolution or the 2009 General Resolution.

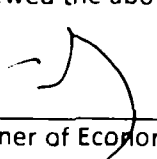
FastTrack Report to State Funding Board

5/31/2016

1. Previous FastTrack Balance, as of Last Report	163,682,672.29	
2. + New Appropriations:	0.00	
3. + Newly Deobligated Funds:	500,000.00	
4. + Funds Transferred to FastTrack:	0.00	
5. - Funds Transferred from FastTrack:	0.00	
6. - FastTrack Grants or Loans Approved Greater Than \$750,000:	(3,055,000.00)	
7. - FastTrack Grants or Loans Approved Less Than \$750,000:	(737,500.00)	
8. Adjusted FastTrack Balance Available for Funding FastTrack Grants or Loans:		160,390,172.29
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9. Total Amount of Commitments:	143,872,737.54	
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10. Uncommitted FastTrack:		16,517,434.75
11. Percentage Committed:		89.7%
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12. Amount of Proposed Grants or Loans:	9,653,750.00	
13. Uncommitted FastTrack Balance if Proposed Grants or Loans Approved:		6,863,684.75
14. Percentage Committed:		95.7%

See next page for explanations of the above questions.

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

 37 /

Date: 6-6-16

Commissioner of Economic and Community Development



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 9, 2016

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(d), 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. Agero Administrative Service Corp. - Blountville (Sullivan County)

Agero Administrative Service Corp. (Agero) provides connected vehicle, roadside assistance, and claims management services to auto manufacturers, insurance carriers, and drivers in the United States. Agero will be taking over an existing facility. The call center will deal with calls from vehicle owners and will act on behalf of the vehicle manufacturers and insurance providers that offer roadside assistance. Agero associates respond to drivers in need, such as a flat tire or a serious car accident.

Agero has committed to create 585 new jobs and make a \$3,500,000 capital investment within five years. The company will have an average wage rate of \$11.68 per hour for the new positions.

FastTrack Job Training Assistance Program funds will be used to train the new workforce needed for the expansion. **(\$438,750)**

Total FastTrack funds for this project - \$438,750



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

2. Hankook Tire America Corp. - Nashville (Davidson County)

Hankook Tire America Corp. (Hankook) is South Korea's largest radial tire manufacturer for cars, trucks, and buses; customers include Audi, Daihatsu, Ford, General Motors, Renault, Volkswagen, and Volvo. Established in 1941, Hankook also makes inner tubes and sells tires to the international automotive aftermarket. The company has four regional headquarters, five worldwide research and development centers, and a global sales network spanning over 180 countries. Hankook plans to relocate its headquarters to Tennessee to service North American markets. Approximately 30 existing Hankook employees will relocate to the Nashville area.

Hankook has committed to create 200 new jobs and make a \$4,960,000 capital investment within five years. The company will have an average wage rate of \$48.07 per hour for the new positions.

FastTrack Economic Development Program funds will be used for building retrofit and office buildout, as well as relocation of personnel. **(\$2,715,000)**

Total FastTrack funds for this project - \$2,715,000

3. The Harris Soup Company dba Harry's Fresh Foods - Nashville (Davidson County)

The Harris Soup Company dba Harry's Fresh Foods (Harry's Fresh Foods) produces premium refrigerated and frozen soups, entrées, sides and desserts and has been doing so since 1977. Harry's products are prepared using the highest-quality ingredients, and then packaged using a state-of-the-art quick-chill process to lock in flavor and freshness.

Harry's Fresh Foods will locate its new production facility in Nashville and is set to be operational by the third quarter of 2016. The new Nashville facility will produce branded and private-label products for club, retail and food-service customers. With this new facility, Harry's Fresh Foods will be able to reduce travel distance for products, which will have an environmental benefit for all of its products.

Harry's Fresh Foods has committed to create 302 new jobs and make a \$34,300,000 capital investment within five years. The company will have an average wage rate of \$14.89 per hour for the new positions.



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

FastTrack Job Training Assistance Program funds will be used to train the new workforce needed for the expansion. **(\$50,000)**

FastTrack Economic Development Program funds will be used for necessary building upgrades to include roof, electrical, drainage, and flooring improvements. **(\$950,000)**

Total FastTrack funds for this project - \$1,000,000

4. ServiceMaster Global Holdings, Inc. - Memphis (Shelby County)

ServiceMaster Global Holdings, Inc. (Service Master) serves millions of commercial and residential customers in the US and around the world with housecleaning, termite and pest control, and landscape maintenance services through more than 8,000 company-owned, franchised and licensed locations. Its best-known brands include Terminix and Merry Maids.

After a nationwide search, Service Master has chosen to remain in Memphis, and will renovate the Peabody Place Mall as its new headquarters. Vacant for more than ten years, the renovation and adaptive reuse of the mall will transform a key block of downtown. Service Master has committed to maintain its current Shelby County employment level of 1,929 full-time employees. The initial net capital investment is estimated at \$24,345,000. Although Service Master has filled more than 30 positions over the past six months, they will not be announcing any new jobs.

FastTrack Economic Development Program funds will be used for building renovation, construction, site preparation at the Peabody Place Mall. **(\$5,500,000)**

Total FastTrack funds for this project - \$5,500,000

5. Morgan Olson, LLC - Loudon (Loudon County)

On December 21, 2015, the State Funding Board approved funding for a FastTrack Job Training Assistance Program Grant, valued at \$1,000,000, and a FastTrack Economic Development Grant, valued at \$1,500,000, which is a total of \$2,500,000 in FastTrack funds. This is to notify the State Funding Board that the company has requested a reallocation of funds. No new funds are being requested at this time.



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

Morgan Olson, LLC engages in the design, engineering, and production of aluminum and composite walk-in/cutaway truck bodies to customers worldwide. The company offers walk-in vans, which include parcel and package, baking and snack food, laundry and uniform, and newspapers delivery vans; utility walk-in vans, such as mobile onsite workshop or residential repair vehicles; specialty vans that include aluminum construction walk-in bodies with a customizable utility cargo area, as well as various interior and exterior options; walk-in vans built on a Freightliner and Ford chassis to handle large delivery/commercial applications; and ultimate delivery vehicles.

Morgan Olson has committed to create 500 new jobs and make a \$45,000,000 capital investment within five years. The company will have an average wage rate of \$16.88 per hour for the new positions.

FastTrack Job Training Assistance Program funds will be used to train the new workforce needed for the expansion. **(\$500,000)**

FastTrack Economic Development Program funds will be used for building retrofit. **(\$2,000,000)**

Total FastTrack funds for this project - \$2,500,000

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,

A handwritten signature in black ink, appearing to read "Randy Boyd" with a stylized flourish and the number "37" written to the right.

Randy Boyd

RB:kl

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*	Agero Administrative Service Corp.	\$438,750	
ECONOMIC DEVELOPMENT			
TOTAL		\$438,750	

(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): Agero Administrative Service Corp.

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

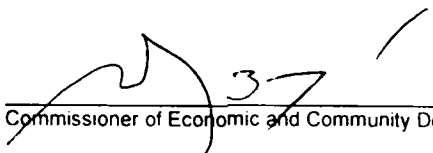
Applicant must answer "Yes" to a or b.

- 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 Yes No

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



Commissioner of Economic and Community Development

6-6-16

Date



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

February 10, 2016

INCENTIVE ACCEPTANCE FORM

This form serves as notice that Agero Administrative Service Corp. (Agero) intends, in good faith, to create 585 private sector jobs and make a capital investment of \$3,500,000 in exchange for incentives that will be memorialized in a grant agreement between Agero and the State of Tennessee.

ECD OFFER SUMMARY

Bristol, Sullivan County

FastTrack Job Training Grant:	\$ 438,750
Total ECD Commitment:	\$ 438,750

Please sign your name in the space below to signify Agero's acceptance of ECD's offer set forth above and return it by May 10, 2016 to:

Tennessee Department of Economic and Community Development
Attn: Jordan Taylor Sloan
312 Rosa Parks Avenue, 27th floor
Nashville, TN 37243
jordan.taylorsloan@tn.gov

Please note that this Incentive Acceptance Form does not give rise to any legal obligations on the part of the State of Tennessee, any department or instrumentality of the State of Tennessee (including ECD and the Department of Revenue) or the Company. The terms and conditions governing the award of the incentive package described herein will be set forth in a grant agreement, the form of which will be provided to the Company following the delivery of an executed copy of the Incentive Acceptance Form. The incentives described in this letter are based upon the representations made by the Company to ECD regarding the project. ECD reserves the right to revise the incentives described in this Incentive Acceptance Form if any aspect of the project changes after receipt of this form. Changes that could result in revision of incentives include, but are not limited to: number of jobs, amount of capital investment, composition of company vs. contract jobs, average wage, or location of the project.

Signature: [Signature]
(Authorized Representative of Company)

Date: 2/18/16

Date 2/16/16
Approved
Agero
By [Signature]

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	The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County	\$2,715,000	
TOTAL		\$2,715,000	

(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): Hankook Tire America Corp.

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

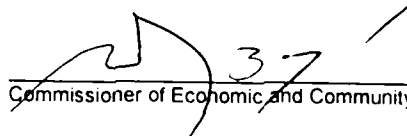
Applicant must answer "Yes" to a or b.

- 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

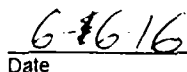
ECONOMIC DEVELOPMENT

- 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 Yes No

I have reviewed this document and believe it to be correct



Commissioner of Economic and Community Development



Date



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 3, 2016

INCENTIVE ACCEPTANCE FORM

This form serves as notice that Hankook Tire America Corporation intends, in good faith, to create 200 private sector jobs and make a capital investment of \$4,960,000 in exchange for incentives that will be memorialized in a grant agreement between Hankook Tire America Corporation and the State of Tennessee.

ECD OFFER SUMMARY

FastTrack Economic Development Grant:	\$ 2,715,000
Total ECD Commitment:	\$ 2,715,000

Please sign your name in the space below to signify Hankook Tire America Corporation's acceptance of ECD's offer set forth above and return it by September 1, 2016 to:

Tennessee Department of Economic and Community Development
Attn: Jordan Taylor Sloan
312 Rosa Parks Avenue, 27th floor
Nashville, TN 37243
jordan.taylor@tn.gov

Please note that this Incentive Acceptance Form does not give rise to any legal obligations on the part of the State of Tennessee, any department or instrumentality of the State of Tennessee (including ECD and the Department of Revenue) or the Company. The terms and conditions governing the award of the incentive package described herein will be set forth in a grant agreement, the form of which will be provided to the Company following the delivery of an executed copy of the Incentive Acceptance Form. The incentives described in this letter are based upon the representations made by the Company to ECD regarding the project. ECD reserves the right to revise the incentives described in this Incentive Acceptance Form if any aspect of the project changes after receipt of this form. Changes that could result in revision of incentives include, but are not limited to: number of jobs, amount of capital investment, composition of company vs. contract jobs, average wage, or location of the project.

Signature: 
(Authorized Representative of Company)

Date: June 6, 2016



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 9, 2016

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 a FastTrack Economic Development Grant to The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County for the benefit of Hankook Tire America Corp. in the amount of \$2,715,000 for building retrofit and office buildout, as well as relocation of personnel. 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 high wage jobs. Hankook has committed to create 200 new jobs and to make a \$4,960,000 capital investment within five years. The company will have an average wage of \$48.07 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 long horizontal stroke extending to the right.

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*	The Harris Soup Company dba Harry's Fresh Foods	\$50,000	
ECONOMIC DEVELOPMENT	The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County	\$950,000	
TOTAL		\$1,000,000	

(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): The Harris Soup Company dba Harry's Fresh Foods

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)?
 - 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
- 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

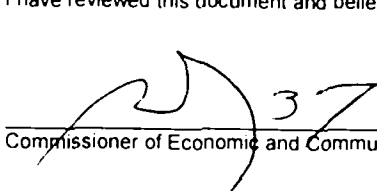
Applicant must answer "Yes" to a or b.

- 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)?
- 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. Yes No

I have reviewed this document and believe it to be correct



Commissioner of Economic and Community Development

6-6-16
Date



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

May 23, 2016

INCENTIVE ACCEPTANCE FORM

This form serves as notice that The Harris Soup Co. dba Harry's Fresh Foods intends, in good faith, to create 302 private sector jobs and make a capital investment of \$34,300,000 in exchange for incentives that will be memorialized in a grant agreement between The Harris Soup Co. dba Harry's Fresh Foods and the State of Tennessee.

ECD OFFER SUMMARY

FastTrack Job Training Grant:	\$ 50,000
FastTrack Economic Development Grant:	\$ 950,000
Total ECD Commitment:	\$ 1,000,000

Please sign your name in the space below to signify The Harris Soup Co. dba Harry's Fresh Foods' acceptance of ECD's offer set forth above and return it by August 21, 2016 to:

Tennessee Department of Economic and Community Development
Attn: Jordan Taylor Sloan
312 Rosa Parks Avenue, 27th floor
Nashville, TN 37243
jordan.taylorsloan@tn.gov

Please note that this Incentive Acceptance Form does not give rise to any legal obligations on the part of the State of Tennessee, any department or instrumentality of the State of Tennessee (including ECD and the Department of Revenue) or the Company. The terms and conditions governing the award of the incentive package described herein will be set forth in a grant agreement, the form of which will be provided to the Company following the delivery of an executed copy of the Incentive Acceptance Form. The incentives described in this letter are based upon the representations made by the Company to ECD regarding the project. ECD reserves the right to revise the incentives described in this Incentive Acceptance Form if any aspect of the project changes after receipt of this form. Changes that could result in revision of incentives include, but are not limited to: number of jobs, amount of capital investment, composition of company vs. contract jobs, average wage, or location of the project.

Signature: *[Handwritten Signature]*
(Authorized Representative of Company)

Date: 5/25/16



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 9, 2016

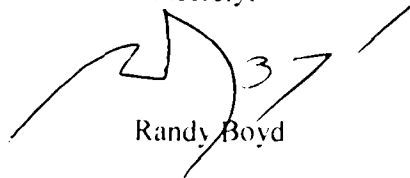
Comptroller Justin Wilson
First Floor, State Capitol
Nashville, TN 37243

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 a FastTrack Economic Development Grant to The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County for the benefit of The Harris Soup Company dba Harry's Fresh Foods in the amount of \$950,000 for necessary building upgrades to include roof, electrical, drainage, and flooring improvements. 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 jobs and significant capital investment. Harry's Fresh Foods has committed to create 302 new jobs and to make a \$34,300,000 capital investment within five years. The company will have an average wage of \$14.89 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 to the right.

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	The Economic Development Growth Engine for Memphis and Shelby County	\$5,500,000	
TOTAL		\$5,500,000	

(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): ServiceMaster Global Holdings, 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)?
- 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
 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)?
- 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)?
- 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
 Yes No
 Yes No

Applicant must answer "Yes" to a or b.

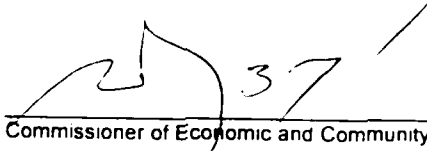
- 12 a Will the grant or loan address infrastructure, such as, water, wastewater, transportation systems, line extensions, industrial site preparation or similar items where it is demonstrated that such improvements are necessary for the location or expansion of business or industry T C A § 4-3-717(h)(2)?
- 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)?
- 14 Is this grant or loan eligible for FastTrack infrastructure development or job training assistance funds T C A § 4-3-717(d)(1)?
- 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)?
- 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
- 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

Yes No
 Yes No
 Yes No
 Yes No

I have reviewed this document and believe it to be correct

 37
 Commissioner of Economic and Community Development

6-6-16
 Date



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 2, 2016

INCENTIVE ACCEPTANCE FORM

This form serves as notice that ServiceMaster Global Holdings, Inc. intends, in good faith, to make a capital investment of \$24,345,000 and to maintain its current level of employment of 1,929 full-time positions, as well as fulfill all conditions as outlined in the letter dated June 2, 2016 in exchange for incentives that will be memorialized in a grant contract and Accountability Agreement between ServiceMaster Global Holdings, Inc. and the State of Tennessee.

ECD OFFER SUMMARY

FastTrack Economic Development Grant:	\$ 5,500,000
Total ECD Commitment:	\$ 5,500,000

Please sign your name in the space below to signify ServiceMaster Global Holdings, Inc.'s acceptance of ECD's offer as set forth in the letter dated June 2, 2016 and return it today to:

Tennessee Department of Economic and Community Development
Attn: Jordan Taylor Sloan
312 Rosa Parks Avenue, 27th floor
Nashville, TN 37243
jordan.taylorsloan@tn.gov

Please note that this Incentive Acceptance Form does not give rise to any legal obligations on the part of the State of Tennessee, any department or instrumentality of the State of Tennessee (including ECD and the Department of Revenue) or the Company. The terms and conditions governing the award of the incentive package described herein will be set forth in a grant agreement, the form of which will be provided to the Company following the delivery of an executed copy of the Incentive Acceptance Form. The incentives described in this letter are based upon the representations made by the Company to ECD regarding the project. ECD reserves the right to revise the incentives described in this Incentive Acceptance Form if any aspect of the project changes after receipt of this form. Changes that could result in revision of incentives include, but are not limited to: number of jobs, amount of capital investment, composition of company vs. contract jobs, average wage, or location of the project.

Signature: _____

Date: 6/2/16

Name: James Locke

Title: SVP & GC



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 9, 2016

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 a FastTrack Economic Development Grant to the Economic Development Growth Engine for Memphis and Shelby County for the benefit of ServiceMaster Global Holdings, Inc. in the amount of \$5,500,000 for FastTrack Economic Development Program funds will be used for building renovation, construction, and site preparation at the Peabody Place Mall. 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 company's plan to renovate the Peabody Place Mall as its new headquarters. Vacant for more than ten years, the renovation and adaptive reuse of the mall will transform a key block of downtown. Service Master has committed to maintain its current Shelby County employment level of 1,929 full-time employees. The initial net capital investment is estimated at \$24,345,000. Although Service Master has filled more than 30 positions over the past six months, they will not be announcing any new jobs. 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 stylized flourish extending to the right.

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*	Morgan Olson, LLC	\$500,000	
ECONOMIC DEVELOPMENT	Industrial Development Board of the City of Loudon	\$2,000,000	
TOTAL		\$2,500,000	

(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): Morgan Olson, LLC

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(e)? 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(e)? 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)?
 - 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
- 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)?
- 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

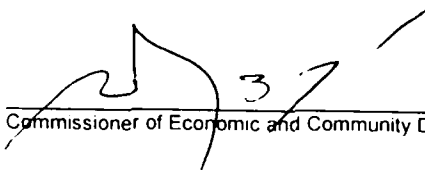
Applicant must answer "Yes" to a or b.

- 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)? Yes No
 - 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)?
- 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. Yes No

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



Commissioner of Economic and Community Development

6-6-16
Date



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

May 26, 2016

INCENTIVE ACCEPTANCE FORM

This form serves as notice that Morgan Olson LLC intends, in good faith, to create 500 private sector jobs and make a capital investment of \$45,000,000 in exchange for incentives that will be memorialized in a grant agreement between Morgan Olson LLC and the State of Tennessee.

ECD OFFER SUMMARY

FastTrack Job Training Grant:	\$ 500,000
FastTrack Economic Development Grant:	\$ 2,000,000
Total ECD Commitment:	\$ 2,500,000

Please sign your name in the space below to signify Morgan Olson LLC's acceptance of ECD's offer set forth above and return it by August 24, 2016 to:

Tennessee Department of Economic and Community Development
Attn: Jordan Taylor Sloan
312 Rosa Parks Avenue, 27th floor
Nashville, TN 37243
jordan.taylorsloan@tn.gov

Please note that this Incentive Acceptance Form does not give rise to any legal obligations on the part of the State of Tennessee, any department or instrumentality of the State of Tennessee (including ECD and the Department of Revenue) or the Company. The terms and conditions governing the award of the incentive package described herein will be set forth in a grant agreement, the form of which will be provided to the Company following the delivery of an executed copy of the Incentive Acceptance Form. The incentives described in this letter are based upon the representations made by the Company to ECD regarding the project. ECD reserves the right to revise the incentives described in this Commitment Letter if any aspect of the project changes after receipt of this letter. Changes that could result in revision of incentives include, but are not limited to: number of jobs, amount of capital investment, composition of company vs. contract jobs, average wage, or location of the project.

Signature: 
(Authorized Representative of Company)

Date: 5/31/16



Department of Economic and Community Development

Randy Boyd
Commissioner

Bill Haslam
Governor

June 9, 2016

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 a FastTrack Economic Development Grant to the Industrial Development Board of the City of Loudon for the benefit of Morgan Olson, LLC in the amount of \$2,000,000 for building retrofit and improvements. 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 jobs and significant capital investment. Morgan Olson has committed to create 500 new jobs and to make a \$45,000,000 capital investment within five years. The company will have an average wage of \$16.88 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 date "3-7-16" written to the right of the signature.

Randy Boyd

**RESOLUTION ALLOCATING FUNDS TO DEFRAY A PORTION OF
THE COST OF HIGHWAY BRIDGE CONSTRUCTION PROJECTS
AND CANCELING AUTHORIZED BONDS**

Recitals

(1) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 1109, Public Acts of Tennessee, 2010 (the "2010 Act"), to issue and sell its general obligation bonds in an amount not to exceed One Hundred Ninety-Four Million, One Hundred Thousand Dollars (\$194,100,00) of which Eighty-Seven Million, Five Hundred Thousand Dollars (\$87,500,000) is allocated pursuant to Section 4(4) of the 2010 Act (the "2010 Bridge Construction Bonds") for the Department of Transportation for the purpose of providing funds to be spent for the implementation of Phase II of the Tennessee transportation infrastructure improvement bond program for the construction of bridges and highways.

The Funding Board has previously canceled Twenty-Eight Million, Nine Hundred Thousand Dollars (\$28,900,000) of the 2010 Bridge Construction Bonds; none of the remaining Fifty-Eight Million, Six Hundred Thousand Dollars (\$58,600,000) of the 2010 Bridge Construction Bonds principal amount authorized has been issued.

Section 6, Item 2 (b) of Chapter 427, Public Acts of Tennessee, 2015 (the "2015 Appropriations Act") directs the Funding Board to cancel highway bonds in an amount equal to the conversion to federal funding related to the bridge construction bonds.

Based on notification from the Department of Transportation that Twenty-Nine Million, One Hundred Thousand Dollars (\$29,100,000) of the 2010 Bridge Construction Bond authorization was converted to federal financing in the fiscal year ending June 30, 2016, the Commissioner of Finance and Administration by memorandum dated May 16, 2016, recommended that the Funding Board proceed with canceling Twenty-Nine Million, One Hundred Thousand Dollars (\$29,100,000) of the unissued 2010 Bridge Construction Bonds.

Be It Resolved By The Funding Board Of The State Of Tennessee:

1. The projects authorized to be financed by the 2010 Bridge Construction Bonds have been financed in whole or in part with current funds and a total of Twenty-Nine Million, One Hundred Thousand Dollars (\$29,100,000) is no longer needed to fund such authorized projects.
2. Twenty-Nine Million, One Hundred Thousand Dollars (\$29,100,000) of the unissued 2010 Bridge Construction Bonds are hereby cancelled.
3. This resolution shall be effective June 9, 2016, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 9, 2016.

JUSTIN P. WILSON, SECRETARY
TENNESSEE STATE FUNDING BOARD

**RESOLUTION ALLOCATING FROM THE DEBT SERVICE FUND TO
THE CAPITAL PROJECTS FUND \$3,524,992.81 AND CANCELING
AUTHORIZED BONDS**

RECITALS

(1) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 945, Public Acts of Tennessee, 1996 to issue and sell its general obligation bonds in an amount not to exceed Fourteen Million Dollars and No Cents (\$14,000,000.00) of which is allocated to the Department of Environment and Conservation for the purpose of acquiring real estate, preparing, developing, constructing and equipping projects at Henry Horton State Park and Pickwick State Park (the “1996-945 Act Bonds”).

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Seventy-Seven Thousand, Three Hundred Sixty-Five Dollars and Ninety-Nine Cents (\$77,365.99) is available from funds in the debt service fund balance at June 30, 2016 for the 1996-945 Act Bonds and recommended that a like amount of authorization be canceled.

(2) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 952, Public Acts of Tennessee, 1996 (the “1996-952 Act”) to issue and sell its general obligation bonds in an amount not to exceed Four Hundred Thirty-Six Million, Eight Hundred Thousand Dollars and no cents (\$436,800,000.00) of which Two Hundred Eight-One Million, Eight Hundred Thousand Dollars and No Cents (\$281,800,000.00) is allocated pursuant to Sections 4(1) of the 1996-952 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures for expansion, improvement, betterments and extraordinary repairs to existing structures (the “1996-952 Act Bonds”).

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Three Hundred Thousand Dollars and No Cents (\$300,000.00) is available from funds in the debt service fund balance at June 30, 2016 for the 1996-952 Act Bonds and recommended that a like amount of authorization be canceled.

(3) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 535, Public Acts of Tennessee, 1997 (the “1997 Act”) to issue and sell its general obligation bonds in an amount not to exceed One Hundred Thirty-Five Million, Eight Hundred Thousand Dollars and No Cents (\$135,800,000) of which Thirty-Five Million, Nine Hundred Thousand Dollars and No Cents (\$35,900,000.00) is allocated pursuant to Sections 4(1) of the 1997 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures for expansion, improvement, betterments and extraordinary repairs to existing structures (the “1997 Act Bonds”).

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Nine Hundred Sixty-One Thousand, Eight Hundred Fifty-Nine Dollars and Twenty-Nine Cents (\$961,859.29) is available from funds in the debt service fund balance at June 30, 2016 for the 1997 Act Bonds and recommended that a like amount of authorization be canceled.

(4) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 1103, Public Acts of Tennessee 1998 (the "1998 Act") to issue and sell its general obligation bonds in an amount not to exceed Three Hundred Fifty-Five Million, Five Hundred Thousand Dollars and No Cents (\$355,500,000.00) of which Two Hundred Forty-Seven Million, Six Hundred Thousand Dollars and No Cents (\$247,600,000.00) is allocated pursuant to Sections 4(1) of the 1998 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly providing for the making of grants to governmental entities and not-for-profit organizations located in Memphis, Shelby County, Knoxville, Knox County and the Metropolitan Government of Nashville and Davidson County, if such grants are identified in the Governor's budget (the "1998 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Three Hundred Seventy-Five Thousand, Six Hundred Sixty-Six Dollars and Twenty-Seven Cents (\$375,666.27) is available from funds in the debt service fund balance at June 30, 2016 for the 1998 Act Bonds and recommended that a like amount of authorization be canceled.

(5) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 401, Public Acts of Tennessee 1999 (the "1999 Act") to issue and sell its general obligation bonds in an amount not to exceed One Hundred Thirty-Seven Million, Seven Hundred Twenty-Six Thousand Dollars and No Cents (\$137,726,000.00) of which Forty Million, Two Hundred Twenty-Six Thousand Dollars and No Cents (\$40,226,000.00) is allocated pursuant to Sections 4(1) of the 1999 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures, for expansion improvement, betterments and extraordinary repairs to existing structures (the "1999 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that One Hundred Thirty-Three Thousand, Twenty-Two Dollars and Seventy-Four Cents (\$133,022.74) is available from funds in the debt service fund balance at June 30, 2016 for the 1999 Act Bonds and recommended that a like amount of authorization be canceled.

(6) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 984, Public Acts of Tennessee 2000 (the "2000 Act") to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Four Million, Three Hundred Ninety Thousand Dollars and No Cents (\$204,390,000.00) of which Ninety-Seven Million, Two Hundred Ninety Thousand Dollars and No Cents (\$97,290,000.00) is allocated pursuant to Sections 4(1) of the 2000 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures, for expansion improvement, betterments and extraordinary repairs to existing structures (the "2000 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Three Hundred Thirty-Five Thousand, Nine Hundred Fifty-Seven Dollars and Eighty-Four Cents (\$335,957.84) is available from funds in the debt service fund balance at June 30, 2016 for the 2000 Act Bonds and recommended that a like amount of authorization be canceled.

(7) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 462, Public Acts of Tennessee 2001 (the "2001 Act") to issue and sell its general obligation bonds in an amount not to exceed One Hundred Sixty Million, Six Hundred Thousand Dollars and No Cents (\$160,600,000.00) of which Nineteen Million, Three Hundred Thousand Dollars and No Cents (\$19,300,000.00) is allocated pursuant to Sections 4(1) of the 2001 Act to the Department of Finance and

Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures, for expansion improvement, betterments and extraordinary repairs to existing structures (the "2001 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Six Hundred Thirty-Three Thousand, Seven Hundred Seventy-Four Dollars and Thirty-Four Cents (\$633,774.34) is available from funds in the debt service fund balance at June 30, 2016 for the 2001 Act Bonds and recommended that a like amount of authorization be canceled.

(8) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 852, Public Acts of Tennessee 2002 (the "2002 Act") to issue and sell its general obligation bonds in an amount not to exceed One Hundred Twenty-Seven Million, Two Hundred Sixty-Five Thousand Dollars and No Cents (\$127,265,000.00) of which Forty-Seven Million, One Hundred Sixty-Five Thousand Dollars and No Cents (\$47,165,000.00) is allocated pursuant to Sections 4(1) of the 2002 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures, for expansion improvement, betterments and extraordinary repairs to existing structures, and further expressly providing for the making of a grant to a government entity or not-for profit organization located in the City of Spencer, if such grant is identified in the Governor's budget (the "2002 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that One Hundred Seventy-Five Thousand, Five Hundred Ninety-Two Dollars and Ten Cents (\$175,592.10) is available from funds in the debt service fund balance at June 30, 2016 for the 2002 Act Bonds and recommended that a like amount of authorization be canceled.

(9) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 296, Public Acts of Tennessee 2003 (the "2003-296 Act") to issue and sell its general obligation bonds in an amount not to exceed Ninety Million, Five Hundred Three Thousand Dollars and No Cents (\$90,503,000.00) of which Forty-Seven Million, Sixteen Million, Five Hundred Three Thousand Dollars and No Cents (\$16,503,000.00) is allocated pursuant to Sections 4(1) of the 2003-296 Act to the Department of Finance and Administration to be expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures, for expansion improvement, betterments and extraordinary repairs to existing structures (the "2003-296 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Two Hundred Ninety-Six Thousand, Eight Hundred Seventy-Seven Dollars and Twenty-Two Cents (\$296,877.22) is available from funds in the debt service fund balance at June 30, 2016 for the 2003-296 Act Bonds and recommended that a like amount of authorization be canceled.

(10) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 338, Public Acts of Tennessee 2003 (the "2003-338 Act") to issue and sell its general obligation bonds in an amount not to exceed One Hundred Million Dollars and No Cents (\$100,000,000.00) of which is allocated to the Department of Finance and Administration to be expended for office and program facility projects for the state and expended for the purpose of acquisition of equipment, and erection, construction and equipment of sites and buildings expressly including the acquisition of existing structures, for expansion improvement, betterments and extraordinary repairs to existing structures (the "2003-338 Act Bonds").

By memorandum dated May 16, 2016, the Commissioner of Finance and Administration has notified the Funding Board that Two Hundred Thirty-Four Thousand, Eight Hundred Seventy-Seven

Dollars and Two Cents (\$234,877.02) is available from funds in the debt service fund balance at June 30, 2016 for the 2003-338 Act Bonds and recommended that a like amount of authorization be canceled.

Be It Resolved By the Funding Board of the State of Tennessee:

1. The projects authorized to be financed by the 1996-945 Act Bonds, 1996-952 Act Bonds, 1997 Act Bond, 1998 Act Bonds, 1999 Act Bonds, 2000 Act Bond, 2001 Act Bonds, 2002 Act Bond, 2003-296 Act Bonds and 2003-338 Act Bonds were financed in whole or in part with current funds and Three Million, Five Hundred Twenty-Four Thousand, Nine Hundred Ninety-Two Dollars and Eighty-One Cents (\$3,524,992.81) is no longer needed to fund such projects.
2. In accordance with the authority provided by Tennessee Code Annotated Sections 9-9-205, it is hereby requested that Three Million, Five Hundred Twenty-Four Thousand, Nine Hundred Ninety-Two Dollars and Eighty-One Cents (\$3,524,992.81) be allocated from the Debt Service Fund to the Capital Projects Fund and such allocation is hereby made.
3. In accordance with authority provided by Tennessee Code Annotated Section 9-9-208, the 2016 Appropriation Act and the memorandum from the Commissioner of Finance and Administration dated May 16, 2016, the Funding Board hereby cancels Three Million, Five Hundred Twenty-Four Thousand, Nine Hundred Ninety-Two Dollars and Eighty-One Cents (\$3,524,992.81) of the 1996-945 Act Bonds, 1996-952 Act Bonds, 1997 Act Bonds, 1998 Act Bonds, 1999 Act Bonds, 2000 Act Bonds, 2001 Act Bonds, 2002 Act Bonds, 2003-296 Act Bonds and 2003-338 Act Bonds.
4. This resolution shall be effective as of June 9, 2016 and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 9, 2016.

JUSTIN P. WILSON, SECRETARY
TENNESSEE STATE FUNDING BOARD

RESOLUTION CERTIFYING AND AUTHORIZING THE ALLOCATION OF FUNDS TO THE SINKING FUND FOR THE 2016-2017 FISCAL YEAR

Recitals

Pursuant to Chapter 176, Public Acts of Tennessee, 2013 (the “Act”), effective July 1, 2013, the State of Tennessee has pledged in T.C.A. Section 9-9-104 for the payment of debt service on a pro rata basis on its general obligation bonds issued on or before June 30, 2013, the following:

- Annual proceeds of a tax to five cents (\$.05) per gallon upon gasoline;
- Annual proceeds of the special tax on petroleum products imposed by T.C.A. Section 67-3-203 (formerly T.C.A. Section 67-3-1303);
- One half (1/2) of the annual proceeds of motor vehicle registration fees; and
- Entire annual proceeds of franchise taxes imposed by the franchise tax law in Title 67, Chapter 4, Part 21 (formerly Title 67, Chapter 4, Part 9).

Pursuant to the Act, the State Funding Board is authorized by T.C.A. Section 9-9-106 to certify the amount necessary to provide for the payment of debt service from the fees, taxes and other revenues and funds available for such purpose.

Section 1, Title III-31 of Chapter 758, Public Acts of Tennessee, 2016, (the “General Appropriations Act”) appropriates the aggregate sum of Four Hundred Twenty-Five Million, Fifty-Four Thousand Dollars (\$425,054,000) for debt service expenses and amortization of authorized and unissued bonds for the 2016-2017 fiscal year. The citation is Section 1, Title III-31, of the General Appropriations Act, as increased in the amount of Eighty-Nine Million, Seven Hundred Thousand Dollars (\$89,700,000) pursuant to the language in Section 1, Title III-31. Section 1, Title III-33 of the General Appropriations Act, appropriates to the Sinking Fund such amount of the excise tax receipts as determined by the State Funding Board.

The Commissioner of Finance and Administration recommended by memorandum dated May 16, 2016, that the State Funding Board allocate Four Hundred Seven Million, Three Hundred Thousand Dollars (\$407,300,000) in pledged tax revenues. Further, he recommended the following specific dollar allocation of taxes for the payment of debt service on general obligation debt of the State of Tennessee:

<u>TAX OR FEE</u>	<u>AMOUNT</u>	<u>BASIS OF ALLOCATION</u>
Franchise Tax	\$ 18,000,000	Equal monthly
Excise Tax	237,100,000	Equal monthly
Gasoline Tax	92,100,000	Equal monthly
Motor Vehicle Title Fees	2,700,000	Equal monthly

Further, he recommended a monthly allocation totaling Fifty-Seven Million, Four Hundred Thousand Dollars (\$57,400,000) of Sales Tax revenues [which is the estimated allocation of the net receipts of State Sales Tax pursuant to T.C.A. Section 67-6-103]. These recommendations assume (i) utilization of Sports Authority Revenue in the amount of Three Million, Eight Hundred Thirty-Five Thousand Dollars (\$3,835,000) and Other Revenues (College and Universities and State Veterans’ Homes) in the amount of Four Million, Nine Hundred Thirty-Two Thousand Dollars (\$4,932,000) (ii) a Federal Highway Bridge Funds Match of Nine Million, Six Hundred Thousand Dollars (\$9,600,000) and (iii) an adjusted balance at June 30, 2017 of Six Hundred Thirteen Thousand Dollars (\$613,000).

Be It Resolved By The Funding Board Of The State Of Tennessee:

1. It is hereby certified to the Commissioner of Finance and Administration that the following sums shall be allocated to the Sinking Fund for debt retirement for the 2016-2017 fiscal year:

<u>SOURCE, TAX OR FEE</u>	<u>AMOUNT</u>	<u>BASIS OF ALLOCATION</u>
Franchise Tax	\$ 18,000,000	Equal monthly
Excise Tax	237,100,000	Equal monthly
Gasoline Tax	92,100,000	Equal monthly
Motor Vehicle Title Fees	2,700,000	Equal monthly
Sales Tax (estimated TCA allocation)	57,400,000	Monthly

2. This resolution shall be effective as of July 1, 2016, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 9, 2016.

JUSTIN P. WILSON, SECRETARY
TENNESSEE STATE FUNDING BOARD

**RESOLUTION ALLOCATING FUNDS TO DEFRAID A PORTION OF
THE COST OF HIGHWAY CONSTRUCTION PROJECTS AND
CANCELING AUTHORIZED BONDS**

Recitals

(1) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 1202, Public Acts of Tennessee, 2008 (the “2008 Act”), to issue and sell its general obligation bonds in an amount not to exceed One Hundred Forty-One Million, Four Hundred Thousand Dollars (\$141,400,000) of which Eighty-Seven Million, Seven Hundred Thousand Dollars (\$87,700,000) is allocated pursuant to Section 4(3) of the 2008 Act (the “2008 DOT Bonds”) for the Department of Transportation for the purpose of providing funds to be spent for the construction of highways and highway projects.

None of the 2008 DOT Bonds principal amount authorized has been issued.

Section 6, Item 2(a) of Chapter 758, Public Acts of Tennessee, 2016 (the “2016 Appropriations Act”) appropriates to the Funding Board the sum of Eighty-Seven Million, Seven Hundred Thousand Dollars (\$87,700,000) to cancel a like amount of unissued 2008 DOT Bonds.

The Commissioner of Finance and Administration by memorandum dated May 16, 2016, recommended that the Funding Board proceed with canceling Eighty-Seven Million, Seven Hundred Thousand Dollars (\$87,700,000) of the unissued 2008 DOT Bonds.

(2) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 1024, Public Acts of Tennessee, 2012 (the “2012 Act”), to issue and sell its general obligation bonds in an amount not to exceed Three Hundred Eighty-One Million, Nine Hundred Thousand Dollars (\$381,900,000) of which Eighty Million Dollars (\$80,000,000) is allocated pursuant to Section 4(4) of the 2012 Act (the “2012 DOT Bonds”) for the Department of Transportation for the purpose of providing funds to be spent for the construction of highways and highway projects.

The Funding Board has previously canceled Three Million Dollars (\$3,000,000) of the 2012 DOT Bonds; none of the remaining Seventy-Seven Million Dollars (\$77,000,000) of the 2012 DOT Bonds principal amount authorized has been issued.

Section 6, Item 2(a) of the 2016 Appropriations Act appropriates to the Funding Board the sum of One Million Dollars (\$1,000,000) to cancel a like amount of unissued 2012 DOT Bonds.

The Commissioner of Finance and Administration by memorandum dated May 16, 2016, recommended that the Funding Board proceed with canceling One Million Dollars (\$1,000,000) of the unissued 2012 DOT Bonds.

(3) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 452, Public Acts of Tennessee, 2013 (the “2013 Act”), to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Sixty-Six Million Dollars (\$266,000,000) of which Eighty-One Million Dollars (\$81,000,000) is allocated pursuant to Section 4(2) of the 2013 Act (the “2013 DOT Bonds”) for the Department of Transportation for the purpose of providing funds to be spent for the construction of highways and highway projects.

The Funding Board has previously canceled One Million Dollars (\$1,000,000) of the 2013 DOT Bonds; none of the remaining Eighty Million Dollars (\$80,000,000) of the 2013 DOT Bonds principal amount authorized has been issued.

Section 6, Item 2(a) of the 2016 Appropriations Act appropriates to the Funding Board the sum of One Million Dollars (\$1,000,000) to cancel a like amount of unissued 2013 DOT Bonds.

The Commissioner of Finance and Administration by memorandum dated May 16, 2016, recommended that the Funding Board proceed with canceling One Million Dollars (\$1,000,000) of the unissued 2013 DOT Bonds.

Be It Resolved By The Funding Board Of The State Of Tennessee:

1. The projects authorized to be financed by the 2008 DOT Bonds, 2012 DOT Bonds and 2013 DOT Bonds have been financed in whole or in part with current funds and a total of Eighty-Nine Million, Seven Hundred Thousand Dollars (\$89,700,000) is no longer needed to fund such authorized projects.
2. Eighty-Seven Million, Seven Hundred Thousand Dollars (\$87,700,000) of the unissued 2008 DOT Bonds are hereby canceled.
3. One Million Dollars (\$1,000,000) of the unissued 2012 DOT Bonds are hereby canceled.
4. One Million Dollars (\$1,000,000) of the unissued 2013 DOT Bonds are hereby canceled.
5. This resolution shall be effective July 1, 2016, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 9, 2016.

JUSTIN P. WILSON, SECRETARY
TENNESSEE STATE FUNDING BOARD

**A RESOLUTION AUTHORIZING THE ISSUANCE OF
GENERAL OBLIGATION BONDS OF THE STATE OF TENNESSEE**

Be It Resolved By The Funding Board Of The State Of Tennessee:

1. The Funding Board of the State of Tennessee (the "Funding Board") hereby finds and determines that the Funding Board is authorized to provide for the issuance of general obligation bonds of the State of Tennessee (the "State") under the provisions of Sections 1 and 4 of Chapter 1060, Public Acts of Tennessee, 2016 , to be allocated as follows:

Eighty-Seven Million, Seven Hundred Thousand Dollars (\$87,700,000) to the Department of Transportation to be expended for the construction of highways and for the purpose of acquisition of equipment and sites, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures for expansion, improvements, betterments and extraordinary repairs to existing structures.

Further, the Funding Board is authorized to sell bonds in amounts not to exceed 2.5% of all of the amounts stated above, the proceeds of which are to be allocated to the Funding Board and expended for the purpose of funding discounts and the costs of issuance.

2. The Funding Board hereby finds and determines that no bonds or bond anticipation notes have been issued pursuant to the Public Acts referred to in Section 1 hereof, and that such authorization has not been cancelled or rescinded.

3. The Funding Board hereby authorizes the issuance of general obligation bonds of the State in the respective maximum principal amounts and for the respective purposes set forth in Section 1 hereof (the "Bonds"). The sale and issuance of the Bonds shall be provided for by subsequent resolution of the Funding Board. Pending the issuance of Bonds, bond anticipation notes may be issued from time to time under and pursuant to the resolution adopted by the Funding Board on March 6, 2000, entitled "RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF COMMERCIAL PAPER; AUTHORIZING AND PROVIDING FOR A STANDBY COMMERCIAL PAPER PURCHASE AGREEMENT; AND PROVIDING FOR CERTAIN OTHER MATTERS RELATED THERETO", as amended or restated, or under and pursuant to other resolutions hereafter adopted by the Funding Board.

4. The Funding Board reserves the right to rescind the authorization of any Bonds authorized hereunder to the extent (i) general obligation bonds have not been issued against such Bond authorization or (ii) general obligation bond anticipation notes have not been issued in anticipation of the issuance of Bonds to be issued against such Bond authorization.

5. Available State funds may be expended for any or all of the purposes specified in Section 1 hereof, in anticipation of reimbursement from the proceeds of Bonds or bond anticipation notes issued under and pursuant to the respective authorizations specified in Section 1 hereof. The Funding Board hereby authorizes the Commissioner of Finance and Administration or the Secretary or Assistant Secretary of the Board to evidence an official intent to this effect, and otherwise execute, file and publish such documents or take such other action, as may be necessary to permit reimbursement from the proceeds of Bonds or bond anticipation notes, the interest on which shall be excluded from gross income for federal income tax purposes.

6. If any provisions of this resolution or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the resolution which can be given effect without the invalid provision or application, and to that end the provisions of this resolution are declared to be severable.

7. This resolution shall be effective as of July 1, 2016, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 9, 2016.

JUSTIN P. WILSON, SECRETARY
TENNESSEE STATE FUNDING BOARD

**RESOLUTION AUTHORIZING AMENDED AND RESTATED STANDBY
COMMERCIAL PAPER PURCHASE AGREEMENT
AND UPDATED COMMERCIAL PAPER OFFERING MEMORANDUM**

WHEREAS, the State of Tennessee (the "State"), acting by and through the Funding Board of the State of Tennessee (the "State Funding Board"), heretofore entered into a Standby Commercial Paper Purchase Agreement dated as of March 14, 2000, as amended (the "Standby Agreement"), with the Tennessee Consolidated Retirement System in connection with the State's General Obligation Commercial Paper (the "Commercial Paper"); and

WHEREAS, it is necessary or advisable to amend and restate the Standby Agreement in certain respects; and

WHEREAS, it is necessary and advisable to prepare and cause to be distributed to potential purchasers of Commercial Paper an updated Offering Memorandum (the "Offering Memorandum") describing the Commercial Paper, the State's Commercial Paper program, financial information and operating data relating to the State, and other related information; and

WHEREAS, drafts of an amended and restated Standby Agreement and updated Offering Memorandum have been presented to this meeting;

NOW THEREFORE, BE IT RESOLVED BY THE FUNDING BOARD OF THE STATE OF TENNESSEE:

1. The State Funding Board hereby authorizes the execution by any officer of the State Funding Board, and delivery to the other party, of an amended and restated Standby Commercial Paper Purchase Agreement substantially in the form presented to this meeting, with such changes and additions to and omissions from said form as the officer executing such agreement, after consultation with counsel to the State Funding Board, shall approve as necessary or appropriate, such execution and delivery to be conclusive evidence of such approval and consultation.

2. The State Funding Board hereby authorizes (i) an updated Offering Memorandum substantially in the form presented to this meeting, with such changes and additions to and omissions from said form as the officer executing such agreement, after consultation with counsel and financial advisers to the State Funding Board, shall approve as necessary or appropriate, such distribution to be conclusive evidence of such approval and consultation, and (ii) the use of such updated Offering Memorandum in connection with the offering and sale of Commercial Paper.

3. All officers and employees of the State Funding Board and other officials and employees of the State, including those of the Office of State and Local Finance of the State, are hereby authorized and directed to take all actions as may be necessary or appropriate to effectuate the transactions contemplated by this Resolution.

4. This Resolution shall be in full force and effect from and after its adoption.

Adopted this 9th day of June, 2016.

STANDBY COMMERCIAL PAPER PURCHASE AGREEMENT

(Applicable to Maximum \$350,000,000 of Commercial Paper Outstanding at Any Time)

STANDBY COMMERCIAL PAPER PURCHASE AGREEMENT, dated as of July 1, 2016, between the STATE OF TENNESSEE (the "State"), acting by and through the State Funding Board, and the TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (the "Standby Purchaser"), amends and restates the Standby Commercial Paper Purchase Agreement, dated as of March 14, 2000, as amended and restated on September 4, 2008 and on August 11, 2009 and as amended on December 11, 2014, between the State, acting by and through the State Funding Board, and the Standby Purchaser.

WITNESSETH:

WHEREAS, pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and laws of the State, including bond acts of the General Assembly of the State, and pursuant to the Commercial Paper Resolution, the State has authorized the issuance and sale from time to time of general obligation bond anticipation notes consisting of Commercial Paper; and

WHEREAS, maturing Commercial Paper is payable from the proceeds of sale of Rollover Commercial Paper and other sources as specified in the Commercial Paper Resolution; and

WHEREAS, the State wishes to provide for the purchase by the Standby Purchaser of Rollover Commercial Paper on the terms and conditions provided herein;

NOW THEREFORE, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. The following terms used herein, including the preambles hereto, have the following respective meanings:

"Act" means Title 9, Chapter 9, Tennessee Code Annotated, as amended from time to time.

"Authorized Officer" means the Chairman, Secretary or an Assistant Secretary of the State Funding Board and any other Person authorized by the Secretary or an Assistant Secretary of the State Funding Board to act as an Authorized Officer hereunder.

"Available Commitment" means the Commitment, adjusted from time to time as follows: (a) downward by the principal amount of any Purchased Commercial Paper, other than Rollover Purchased Commercial Paper, issued; (b) upward by the principal amount of any Purchased Commercial Paper (i) the principal of which has been paid to the Standby Purchaser pursuant to

Section 2.02 from the proceeds of Rollover Commercial Paper, other than Purchased Commercial Paper the principal of which is paid from proceeds of Rollover Purchased Commercial Paper, and the interest on which has been paid to the Standby Purchaser by the State from other available moneys, or (ii) both the principal of and interest on which has been paid to the Standby Purchaser by the State from other available moneys; and (c) downward to zero on the Expiration Date.

“Bonds” means general obligation bonds of the State authorized as provided in the Act and Section 2.01 of the Commercial Paper Resolution.

“Bond Resolution” means any resolution or resolutions duly adopted from time to time, by the members of the State Funding Board authorizing the issuance of Bonds.

“Book-Entry Commercial Paper” means Commercial Paper issued in book-entry-only form through the Depository pursuant to the Commercial Paper Resolution.

“Business Day” means any day other than (i) a Saturday, (ii) a Sunday, (iii) a State legal holiday, (iv) a day on which banking institutions in Nashville, Tennessee, or The City of New York, New York, or the city in which the Office of the Issuing and Paying Agent is located, or the city in which the principal office of the Dealer is located, are authorized or obligated by law or executive order to be closed, (v) a day on which the New York Stock Exchange is not open for trading, or (vi) with respect to the Book-Entry Commercial Paper, a day on which the Depository is not scheduled to be open for money market instrument settlement services.

“Commercial Paper” means any of the State's General Obligation Commercial Paper, Series A (Tax-Exempt), and General Obligation Commercial Paper, Series B (Federally Taxable), issued under and at any time outstanding pursuant to the Commercial Paper Resolution, some of such Commercial Paper or all of such Commercial Paper.

“Commercial Paper Fund” means the special trust fund held by the Issuing and Paying Agent pursuant to Section 2.06 of the Commercial Paper Resolution and Section 7 of the Issuing and Paying Agency Agreement for the payment of Commercial Paper.

“Commercial Paper Resolution” means the Commercial Paper Resolution adopted by the members of the State Funding Board on March 6, 2000, as amended and restated on August 5, 2009, authorizing the issuance of tax-exempt and taxable general obligation commercial paper of the State, to be issued in one or more series from time to time in a maximum principal amount outstanding at any time not to exceed \$350,000,000, as the same may from time to time be amended, supplemented or otherwise modified in accordance with the terms thereof and of this Agreement.

“Commitment” means \$350,000,000 less the aggregate principal amount of all Other Obligations outstanding (including Purchased Other Obligations).

“Commitment Fee” has the meaning specified in Section 2.03.

“Dealer” has the meaning specified in the Commercial Paper Resolution.

“Dealer Agreement” has the meaning specified in the Commercial Paper Resolution.

“Default” means any condition or event that constitutes an Event of Default or that with the giving of notice or lapse of time, or both, would, unless cured or waived, become an Event of Default.

“Default Rate” means the Standby Purchaser Rate plus 2.00% per annum, but not in excess of the Maximum Rate.

“Depository” means (i) DTC, (ii) any other Person appointed by the State to serve as securities depository for the Master Note, and (iii) in each such case, its successors and assigns.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” has the meaning specified in Section 6.01 hereof.

“Expiration Date” means the date on which the Commitment terminates pursuant to Section 2.04; provided, however, that if such date is not a Business Day, “Expiration Date” means the next preceding Business Day.

“Issuing and Paying Agency Agreement” has the meaning specified in the Commercial Paper Resolution.

“Issuing and Paying Agent” means Regions Bank, an Alabama banking corporation, and any successor duly appointed pursuant to the Commercial Paper Resolution.

“Master Note” has the meaning specified in the Commercial Paper Resolution.

“Maximum Rate” means, as of any time, the maximum rate of interest per annum then permitted by Section 47-14-103, Tennessee Code Annotated, or other applicable State law.

“Moody's” means Moody's Investors Service, Inc., or any successor, then maintaining a rating on the Commercial Paper at the request of the State.

“No-Issuance Instructions” means a notice in the form of Exhibit B.

“Office” has the meaning specified in the Commercial Paper Resolution.

“Other Obligations” means any debt obligations of the State, other than Commercial Paper, for which the Tennessee Consolidated Retirement System acts as a standby purchaser pursuant to a written agreement with the State.

“Person” means an individual, corporation, firm, association, partnership, limited liability company, trust, or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Purchased Commercial Paper” means Commercial Paper purchased by the Standby Purchaser pursuant to Section 2.01, and shall include Rollover Purchased Commercial Paper.

“Purchased Other Obligations” means Other Obligations purchased by the Standby Purchaser pursuant to a written agreement with the State.

“Related Documents” means this Agreement, the Commercial Paper Resolution, the Issuing and Paying Agency Agreement, the Dealer Agreement, and the Commercial Paper.

“Request” has the meaning specified in the Commercial Paper Resolution.

“Rollover Commercial Paper” means Commercial Paper (other than Purchased Commercial Paper) issued solely to pay the principal of other Commercial Paper (including Purchased Commercial Paper) or Rollover Commercial Paper (including Rollover Purchased Commercial Paper).

“Rollover Purchased Commercial Paper” means Purchased Commercial Paper issued solely to pay the principal of other Purchased Commercial Paper or Rollover Purchased Commercial Paper.

“Special Event of Default” has the meaning specified in Section 6.04.

“Standard & Poor's” means Standard and Poor's Ratings Services, A Division of The McGraw-Hill Companies, or any successor, then maintaining a rating on the Commercial Paper at the request of the State.

“Standby Purchaser” shall mean Tennessee Consolidated Retirement System, or any successor thereto.

“Standby Purchaser Rate” means a daily floating rate per annum equal to the rate of interest reported by Bloomberg Financial Markets Commodities News from time to time as the prime loan rate released weekly by the Federal Reserve Bank of New York in its H15 Statistical Release on Selected Interest Rates, plus three hundred (300) basis points, subject to a floor of seven per cent (7%); provided, however, in no event shall the Standby Purchaser Rate be in excess of the Maximum Rate. If for any reason an interest rate as described above cannot be determined or become effective, the Standby Purchaser Rate shall be a comparable prime rate mutually agreed to by the State and the Standby Purchaser .

“State” means the State of Tennessee.

“State Funding Board” means the Funding Board of the State, created by the Act, or any successor thereto.

SECTION 1.02. Incorporation of Certain Definitions by Reference. Each capitalized term used herein, including the preambles hereto, and not otherwise defined herein shall have the meaning provided therefor in the Commercial Paper Resolution.

SECTION 1.03. Interpretation. (a) Unless the context shall otherwise indicate, words importing the singular shall include the plural and vice versa.

(b) Articles and Sections referred to by number shall mean the corresponding Articles and Sections of this Agreement.

(c) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder,” and any similar terms used in this Agreement refer to this Agreement as a whole unless otherwise expressly stated.

(d) Any headings preceding the text of the several Articles and Sections and the table of contents of this Agreement are solely for convenience of reference and shall neither constitute a part of this Agreement nor affect its meaning, interpretation or effect.

ARTICLE II

PURCHASE OF COMMERCIAL PAPER

SECTION 2.01. Purchase of Commercial Paper. (a) Commitment to Purchase Commercial Paper. The Standby Purchaser agrees, on the terms and conditions contained in this Agreement, to purchase from time to time on any Business Day prior to the Expiration Date an aggregate principal amount of Commercial Paper not to exceed the then-applicable Available Commitment.

(b) Certain Commercial Paper Terms. In addition to any terms and conditions contained in the Commercial Paper Resolution for issuance of Commercial Paper, (i) Commercial Paper shall not be issued to mature on any day in an aggregate principal amount in excess of \$100,000,000 or such greater principal amount as may be agreed to by the Standby Purchaser in writing delivered to the State, the Issuing and Paying Agent and the Dealer, (ii) all Commercial Paper (other than Rollover Purchased Commercial Paper) shall mature on a Business Day that will permit Rollover Purchased Commercial Paper to be issued and mature on a Business Day that is not later than one Business Day prior to the stated Expiration Date without regard to any early termination, consistent with the other requirements of this subsection, and (iii) all Commercial Paper shall be sold and issued at par.

(c) Purchase Price, Interest Rate and Term. All Purchased Commercial Paper shall (i) be purchased at a price equal to the principal amount thereof, (ii) mature on the first Business Day after the date of its issuance which does not cause the total principal amount of all Commercial Paper outstanding (including such Purchased Commercial Paper) and maturing on such day, together with the total principal amount of all Other Obligations outstanding (including Purchased Other Obligations) and maturing or subject to optional or mandatory tender for purchase on such day, to exceed \$100,000,000 or such greater principal amount as may be agreed to by the Standby Purchaser in writing delivered to the State, the Issuing and Paying Agent and the Dealer, and (iii) bear interest at the Standby Purchaser Rate; provided, however, that any amounts payable on Purchased Commercial Paper which are not paid when due after the expiration of any applicable grace periods shall accrue interest at the Default Rate.

(d) Conditions to Purchase. The obligation of the Standby Purchaser to purchase Commercial Paper on any Business Day is subject to satisfaction of the following conditions:

(i) delivery to the Standby Purchaser by the Issuing and Paying Agent of notice of a required purchase by the Standby Purchaser as required by subsection (e) of this Section; and

(ii) no Special Event of Default shall have occurred and be continuing.

Each Request shall be deemed to be a representation and warranty by the State on the date thereof that no Special Event of Default has occurred and is continuing.

(e) Method of Purchasing. If the Standby Purchaser receives, not later than 12:00 Noon, New York City time, on any Business Date prior to the Expiration Date, a notice from the Issuing and Paying Agent pursuant to Section 7(b)(ii) of the Issuing and Paying Agent Agreement, in the form of Exhibit A hereto, specifying the principal amount of Commercial Paper that the Dealer was unable to sell to pay the principal of outstanding Commercial Paper maturing on the same day, the Standby Purchaser will purchase such unsold Commercial Paper (which thereupon shall constitute Purchased Commercial Paper hereunder) on such Business Day pursuant to this Section. The Issuing and Paying Agent also shall give, by such time, (i) such notice, in such form, to the State and (ii) telephonic notice of such required purchase, to the Senior Short-Term Portfolio Manager of the Standby Purchaser or, if such call is not personally answered by him or her, the Chief Investment Officer of the Standby Purchaser or his or her designee, in each case at the telephone number specified by or pursuant to Section 7.01(b); provided, however, that the failure to give such telephonic notice shall not affect the effectiveness of notice given pursuant to the preceding sentence.

The Standby Purchaser shall advise the Issuing and Paying Agent from time to time in writing of the custodian or agent, if any, of the Standby Purchaser for Purchased Commercial Paper, and the State will cause the Issuing and Paying Agent to deliver Purchased Commercial Paper to or for the account of such custodian or agent; provided, however, that while all Commercial Paper is issued as Book-Entry Commercial Paper, the Standby Purchaser shall maintain such a custodian or agent which shall be a participant of the Depository. While all Commercial Paper is issued as Book-Entry Commercial Paper, the beneficial ownership of any Commercial Paper so purchased by the Standby Purchaser shall be recorded on the books of the Issuing and Paying Agent in the name of the Depository or its nominee name and held or otherwise dealt with in accordance with Section 2.03 of the Commercial Paper Resolution; otherwise, the ownership of such Commercial Paper shall be registered on the books of the Issuing and Paying Agent in the name of the Standby Purchaser.

The Standby Purchaser shall pay for such Commercial Paper by wire transfer payment in immediately available funds to the Issuing and Paying Agent by 4:00 P.M., New York City time, on the same day the purchase thereof is required pursuant to this subsection.

(f) Application of Proceeds. The proceeds of Purchased Commercial Paper shall be applied solely to pay the principal of other Commercial Paper on the maturity date thereof in the same aggregate principal amount. The Standby Purchaser shall have no responsibility for, or

incur any liability in respect of any act or failure to act by the Issuing and Paying Agent which results in the failure to apply funds made available to the Issuing and Paying Agent by the Standby Purchaser pursuant to this Section to the payment of other Commercial Paper.

SECTION 2.02. Sales of Rollover Commercial Paper. If and whenever the Standby Purchaser has purchased Commercial Paper, the State shall use its best efforts to cause to be issued to Persons other than the Standby Purchaser, on the date such Purchased Commercial Paper matures, Rollover Commercial Paper in the same aggregate principal amount, and to cause the proceeds of such Rollover Commercial Paper to be used to pay the principal of Purchased Commercial Paper. Immediately upon such payment of the principal of such Purchased Commercial Paper and upon payment by the State of the interest thereon from other available moneys, or upon the payment by the State of both such principal and interest from other available moneys, the Available Commitment shall be reinstated by an amount equal to the principal amount of the Purchased Commercial Paper the principal of and interest on which has been paid.

SECTION 2.03. Fees and Interest. (a) The State hereby agrees to pay the Standby Purchaser an annual commission (collectively, the "Commitment Fee") for the period commencing with and including the date of delivery of this Agreement and ending on and including the Expiration Date. Commitment Fees shall be calculated as a percentage, specified in subsection (b) of this Section, of the Commitment, and shall be payable quarterly in arrears on the first Business Day of each January, April, July and October, commencing on October 1, 2016 and continuing for the term of this Agreement and, pro rata, on the Expiration Date, together with interest thereon from the date payment thereof is due until paid at the Default Rate. Commitment Fees shall be computed based on the actual number of days elapsed in a year consisting of 360 days, composed of twelve 30-day months, and shall be payable to the Standby Note Purchaser in lawful currency of the United States of America and in immediately available funds pursuant to the instructions set forth in Section 7.01(c). If any such payment is due and payable on a day other than a Business Day, such payment shall be made on the next succeeding Business Day with no additional interest.

(b) Commencing July 1, 2016, Commitment Fees shall be calculated at the percentage rates as follows, or otherwise as may be agreed to from time to time by the Authority and the Standby Purchaser in an amendment of or supplement to this Agreement:

(i) At all times during which either Moody's or Standard & Poor's shall have assigned the State's long-term general obligation bonds a rating of Aaa or AAA, respectively (without regard to any gradations within such rating category): to be determined but not to exceed 0.300%.

(ii) At all times during which either Moody's or Standard & Poor's shall have assigned the State's long-term general obligation bonds a rating of Aa or AA, respectively (without regard to any gradations within such rating category): to be determined but not to exceed 0.450%.

(iii) At all times during which both Moody's and Standard & Poor's shall have assigned the State's long-term general obligation bonds a rating lower than Aa and AA,

respectively (without regard to any gradations within such rating category): to be determined but not to exceed 0.700%.

(iv) In the event Moody's and Standard & Poor's have assigned ratings in different rating categories, only the higher rating shall be taken into account for purposes of subparagraphs (i) and (ii) above.

(c) In addition, the State shall pay on July 1, 2016, Commitment Fees payable pursuant to Section 2.01 of this Agreement prior to its amendment and restatement as of July 1, 2016.

SECTION 2.04. Termination of Commitment. The Commitment shall terminate upon the earlier to occur of the following:

(i) the close of business of the Standby Purchaser on July 1, 2021;

(ii) immediately upon the occurrence of a Special Event of Default, in which case the Standby Purchaser shall immediately deliver No-Issuance Instructions to the State, the Issuing and Paying Agent and the Dealer;

(iii) by either party upon giving to the other party notice of termination of at least the longer of (x) ninety (90) calendar days or (y) the remaining number of calendar days to maturity of any then-outstanding Commercial Paper plus one (1) calendar day, in which case the Standby Purchaser shall, immediately upon giving such notice, deliver No-Issuance Instructions to the State, the Issuing and Paying Agent and the Dealer; and

(iv) upon the payment of the principal amount of all Commercial Paper outstanding under the Commercial Paper Resolution and subject to this Agreement, together with receipt by the Standby Purchaser of written notice from an Authorized Officer that such Commercial Paper will not be reissued, that no additional Commercial Paper will be issued and that this Agreement shall be terminated.

The termination of the Commitment hereunder shall not affect the commitment under any separate agreement of the Standby Purchaser to act as a standby purchaser for Other Obligations.

Upon receipt of such No-Issuance Instructions, the State shall cease issuing Commercial Paper as provided in Section 6.03.

ARTICLE III

CONDITIONS TO EFFECTIVENESS OF AGREEMENT

SECTION 3.01. Conditions to Effectiveness of Agreement. This Agreement shall become effective when each party hereto shall have received an executed counterpart of this Agreement and there shall have been delivered to the Standby Purchaser each of the following (and such other documents as the Standby Purchaser may reasonably request), each dated the date of delivery of this Agreement:

(a) an executed counterpart of this Agreement and any other certificates and resolutions of the State authorizing the execution, delivery and performance by the State of this Agreement;

(b) a certificate, signed by an Authorized Officer of the State:

(1) to the effect that since June 30, 2015, there has been no material adverse change in the financial condition, business, assets or liabilities of the State which shall have occurred and be continuing;

(2) to the effect that the representations and warranties contained in Article V are true and correct in all material respects on and as of the date of delivery as though made on and as of such date except to the extent the same relate to any earlier date;

(3) to the effect that no Default, Event of Default, or Special Event of Default has occurred and is then continuing or, upon execution and delivery of this Agreement, will have occurred;

(c) an opinion of the Attorney General of the State, as counsel to the State Funding Board, in form and content satisfactory to the State and the Standby Purchaser;

(d) an opinion of the Attorney General of the State, as counsel to the Standby Purchaser, in form and content satisfactory to the State and the Standby Purchaser;

(e) evidence satisfactory to the Standby Purchaser that Moody's and Standard & Poor's have assigned ratings of P-1 and A-1+, respectively, on the Commercial Paper; and

(f) any fees and disbursements due and owing to the Standby Purchaser pursuant to Section 7.03 at the time of the execution and delivery of this Agreement shall have been received.

Prior to the effectiveness of this Agreement, the Standby Purchaser shall also be entitled to receive such other documents, certificates, opinions, approvals and filings with respect to the Related Documents and this Agreement as the Standby Purchaser may reasonably request.

ARTICLE IV

OBLIGATIONS OF THE STATE

SECTION 4.01. Obligations Unconditional. To the extent permitted by law, and subject to the provisions of Section 2.05 of the Commercial Paper Resolution, the obligations of the State under this Agreement shall be absolute and unconditional and shall remain in full force and effect until all amounts due to the Standby Purchaser hereunder and under the Commercial Paper shall have been paid in full and actually received in accordance with terms hereof and of the Commercial Paper.

ARTICLE V

REPRESENTATIONS, WARRANTIES AND COVENANTS

SECTION 5.01. Representations and Warranties. The State represents and warrants as follows:

(a) Powers, Etc. The State has full power and authority (i) to borrow money for the purposes specified in the Commercial Paper Resolution and this Agreement and to issue Commercial Paper as evidence of such borrowings; (ii) to carry out its governmental purposes in the manner now conducted and proposed to be conducted; and (iii) to adopt the Bond Resolution and the Commercial Paper Resolution and to execute, deliver and perform and observe all of the terms and provisions of the Related Documents.

(b) Authorized, Absence of Conflicts, Etc. The adoption of the Bond Resolution and the Commercial Paper Resolution and the execution, delivery and performance of each Related Document (i) have been and will be duly authorized by all necessary action on the part of the State; (ii) do not and will not conflict with, or result in a violation of, any provision of law, including the Constitution of the State and the Act, or any order, writ, rule or regulation of any court or governmental agency or instrumentality binding upon or applicable to the State; and (iii) do not and will not conflict with, result in a violation of, or constitute a default or create a lien under any other resolution, agreement or instrument to which the State is a party or by which the State or any of its property is bound.

(c) Valid Obligations. Each Related Document is and will be a valid contractual obligation of the State. The enforceability (but not the validity) of each Related Document may be limited by (i) any 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, and (ii) the fact that specific performance and other equitable remedies are granted only in the discretion of a court. The State has not waived the immunity of the State 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 liability may be limited to actual damages and certain costs.

(d) Security.

(1) The Commercial Paper Resolution will create a valid pledge of moneys of the State to the extent provided for in the Commercial Paper Resolution for the equal benefit, protection and security for the Holders of the Commercial Paper.

(2) No consent, approval, permit, authorization or order of, or registration or filing with, any court or governmental agency, authority or instrumentality, or recording or filing of any Related Document, any financing statement or any other certificate, resolution, instrument or agreement, is or will be necessary to create or perfect the aforesaid pledge.

(e) Governmental Consent or Approval.

(1) No consent, approval, permit, authorization or order of, or registration or filing with, any court or governmental agency, authority or other instrumentality not already obtained, given or made is required on the part of the State for the execution, delivery and performance of any Related Document or the adoption of the Bond Resolution or Commercial Paper Resolution, except as set forth in Section 5.01(j).

(2) All consents, approvals, permits, authorizations and orders of, and registrations and filings with, any court or governmental or public agency, authority or other instrumentality required for the issuance, sale, execution, delivery and performance of Commercial Paper have been or will be obtained prior to the delivery thereof.

(f) Litigation. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, arbitrator, governmental or other board, body or official, pending or, to the best knowledge of the State, threatened against or affecting the State, that draws into question the validity of any proceeding taken or to be taken by the State in connection with the execution, delivery and performance of any Related Document, or seeking to prohibit, restrain or enjoin the adoption of the Commercial Paper Resolution or issuance and delivery of any Commercial Paper, nor, to the best knowledge of the State, is there any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect (i) the validity or enforceability of, or the authority or ability of the State to perform its obligations under, any Related Document, (ii) the ability of the State to carry out its purposes in the manner now conducted or as proposed to be conducted or (iii) the exclusion of interest on any outstanding Commercial Paper from gross income for federal income tax purposes to the extent such interest was intended to be so excluded, or the exemption of any Commercial Paper or the interest thereon from personal income taxation by the State or any political subdivision thereof.

(g) No Defaults. No event, Default, Event of Default or Special Event of Default under this Agreement has occurred and is continuing that is, or would with the passage of time or the giving of notice, or both, constitute a default by the State in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Related Document.

(h) Financial Condition. On the date of execution and delivery of this Agreement and on the date of original issuance of any Commercial Paper, subject to the proviso below, the balance sheet of the State for the fiscal year immediately preceding the execution and the delivery of this Agreement or such date of issuance, as the case may be, and the related statements of revenues, expenses and changes in retained earnings and financial position, present fairly the State's financial position as of the end of such fiscal year and the results of its operations and its income, fund balances and changes in fund equity and financial position for the end of such fiscal year, in conformity with generally accepted accounting principles applied on a consistent basis; provided however, that no such balance sheet or financial statements for a fiscal year shall be required prior to one hundred eighty (180) days after the close of such fiscal year. After completion, a copy of such balance sheets and financial statements shall promptly be delivered to the Standby Purchaser.

(i) Disclosures. As of the date of execution and delivery of this Agreement by the State, no information, exhibit or report, including, without limitation, the financial statements referred to in Section 5.01(h), furnished by or on behalf of the State to the Standby Purchaser contains any untrue statement of a material fact or omits any statement of a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading, and there are no facts that the State has not disclosed to the Standby Purchaser that, individually or in the aggregate materially adversely affect or, so far as the State can now foresee, will materially adversely affect the operations, affairs, properties, condition or prospects, financial or otherwise of the State.

(j) Issuance of Commercial Paper. The issuance of Commercial Paper requires a Request by an Authorized Officer as set forth in Section 3.01(c) of the Commercial Paper Resolution, which authorization and any identifications, determinations and allocations required in connection therewith may lawfully be made by Authorized Officers.

SECTION 5.02. Covenants. The State covenants and agrees, from the date hereof and until the termination of this Agreement and the termination of Commitment hereunder and the payment in full of all obligations due under this Agreement, as follows unless the Standby Purchaser shall otherwise consent in writing:

(a) Compliance with Laws, Etc. The State shall comply with all applicable State and federal laws, rules, regulations and orders.

(b) Use of Proceeds. The State shall (i) use the proceeds of the Commercial Paper solely in accordance with the purposes set forth in the Commercial Paper Resolution and (ii) cause the moneys paid by the Standby Purchaser hereunder to be used solely to pay the purchase price of Commercial Paper as required hereby.

(c) Accuracy of Information. All data, certificates, reports, financial statements, opinions of counsel, documents and other information furnished to the Standby Purchaser, whether pursuant to this Agreement or in connection with or pursuant to any amendment or modification of or waiver under this Agreement, shall, at the time that same are so furnished, (i) be complete and correct in all material respects to the extent necessary to give the Standby Purchaser true and accurate knowledge of the subject matter thereof, and (ii) not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading, and the furnishing of same to the Standby Purchaser shall constitute a representation and warranty by the State to that effect.

(d) Additional Documents. The State shall furnish to the Standby Purchaser from time to time, at the State's expense, all further instruments and documents, duly executed and delivered by the State, and take all further action that may be reasonably necessary, or that the Standby Purchaser may reasonably request, in order to (i) perfect and protect any security interest or other right or interest assigned to the Standby Purchaser under or in connection with this Agreement, the Commercial Paper Resolution, or any other Related Document, or (ii) enable the Standby Purchaser to exercise or enforce its rights or remedies under or in connection with this Agreement, the Commercial Paper Resolution or any other Related Document.

(e) Other Obligations. The State will comply with and observe all other obligations and requirements set forth in the Commercial Paper Resolution and each other Related Document to which it is a party (including, without limitation, all provisions therein for the benefit of the Standby Purchaser) and in all statutes and regulations binding upon it or relating to the Commercial Paper, this Agreement, or any of the Related Documents.

(f) Litigation. The State shall promptly notify the Standby Purchaser of (i) the existence and status of any litigation which individually or in the aggregate could, in the event of an unfavorable outcome, have a material adverse effect on (A) the financial condition or operations of the State, (B) the Commercial Paper, (C) the Commitment Fees or other costs or amounts payable hereunder or (D) the enforceability or validity of the Related Documents, or (ii) any change in any material fact or circumstance represented or warranted in this Agreement or in any of the Related Documents.

(g) Documents Related to Other Securities. The State shall notify the Standby Purchaser of the sale or placement of any securities of which it is issuer or which are issued for its direct benefit upon or prior to the issuance thereof, and as soon as practicable after the issuance thereof, furnish to the Standby Purchaser copies of any prospectus, official statement, offering circular or placement memorandum, and any supplements thereto, that the State makes available in connection with the offering for sale of any securities of which it is the issuer or which are issued for its direct benefit.

(h) Preservation of Existence, etc. The State Funding Board shall take no action to terminate its existence, or its rights and privileges in the State.

(i) Tax-Exempt Status. The State shall not take any action or omit to take any action that, if taken or omitted, would adversely affect the exclusion of interest on any outstanding Commercial Paper from gross income of the Holders thereof for purposes of federal income taxation to the extent such interest was intended to be so excluded.

(j) Notice of Default and Other Events. The State shall promptly notify the Standby Purchaser, the Issuing and Paying Agent and the Dealer of each Default, Event of Default or Special Event of Default actually known to the State.

(k) Reports, Certificates, and Other Information. The State will furnish or cause to be furnished to the Standby Purchaser:

(1) reasonably promptly after a written request therefor, any financial data or information evidencing compliance with the requirements of this Agreement as the Standby Purchaser may reasonably request from time to time;

(2) promptly upon their becoming available, copies of any non-routine periodic or special reports filed by the State with any governmental authority, if such reports indicate that there has been a material adverse change in the ability of the State to perform its obligations under or in respect of the Commercial Paper, this Agreement or any of the other Related Documents;

(3) promptly upon receipt thereof, copies of all audit reports submitted to the State by the Comptroller of the Treasury in connection with each interim or special audit of the State made by such accountants;

(4) promptly upon obtaining knowledge of any condition or event which constitutes an Event of Default or which, after notice or lapse of time or both, would constitute an Event of Default, and within 5 days thereafter a certificate signed by an Authorized Officer of the State specifying in reasonable detail the nature and period of existence thereof and what action the State has taken or purposes to take with respect thereto; and

(5) such other information regarding the business, affairs and condition of the State as the Standby Purchaser may from time to time reasonably request.

(l) Access to Books and Records. Except to the extent prohibited by law, the State will permit any person designated by the Standby Purchaser, at the reasonable expense of the State, to visit any of the offices of the State to examine the books and financial records, including minutes of meetings of the State, and make copies thereof or extracts therefrom, and to discuss the affairs, finances and accounts of the State with its principal officials, all at such reasonable times and as often as the Standby Purchaser may reasonably request. Unless otherwise required by law, order, demand, subpoena or similar process, the Standby Purchaser agrees to maintain the confidentiality of all such books, records and information regarding the State.

(m) Rollover Commercial Paper. If and whenever the Standby Purchaser has purchased Commercial Paper, the State shall use its best efforts to cause to be issued to Persons other than the Standby Purchaser, on the date such Purchased Commercial Paper matures, Rollover Commercial Paper in the same aggregate principal amount, and to cause the proceeds of such Rollover Commercial Paper to be used to pay the principal of Purchased Commercial Paper.

(n) Removal of the Dealer. The State shall not remove or replace, or permit to be removed or replaced, the Dealer without the prior consent of the Standby Purchaser; provided, however, that the consent of the Standby Purchaser shall not be unreasonably withheld.

SECTION 5.03. Standby Purchaser Covenants. The Standby Purchaser covenants and agrees, from the date hereof and until the termination of this Agreement:

(a) Investment Authority. To the extent permitted by law, the Standby Purchaser will maintain at all times sufficient investment authority under its investment guidelines, and to manage its investments consistent therewith, to enable it to fulfill its obligation to purchase Commercial Paper as and when required hereunder and under the Commercial Paper Resolution. The Standby Purchaser shall not seek or support any amendment to Section 8-37-104, Tennessee Code Annotated, or any other applicable statute which would adversely affect its ability to purchase Commercial Paper as and when required hereunder and under the Commercial Paper Resolution.

(b) DTC. The Standby Purchaser will, at all times during which DTC acts as Depository for the Commercial Paper, maintain a relationship with a participant of DTC or its successor to the extent required to enable the Standby Purchaser to fulfill its obligation to purchase Book-Entry Commercial Paper as and when required hereunder and under the Commercial Paper Resolution.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. The following shall constitute Events of Default:

(1) Default in the payment when due of interest on any Commercial Paper and such default continues for two (2) Business Days; or

(2) Default in the payment of principal of any Commercial Paper when due, at maturity, upon acceleration or redemption, or otherwise; or

(3) The State fails to perform any of its agreements in any Related Document (except a failure that results in an Event of Default under paragraph (1) or (2) above), the performance of which is material to the Holders of the Commercial Paper, and the failure continues after the Holders of at least 25% in principal amount of the outstanding Commercial Paper give the State Funding Board, the Issuing and Paying Agent, the Dealer and the Standby Purchaser a notice specifying the default, demanding that it be remedied and stating that the notice is a "Notice of Default", and the State does not cure the default within sixty (60) days after receipt of the notice; or

(4) Default in the payment of the principal of or interest on any Bond after the same shall become due, whether at maturity or upon call for redemption, and such default shall continue for a period of thirty (30) days; or

(5) Default in the payment of any Commitment Fees when due pursuant to this Agreement, and the continuance of such default unremedied for five (5) Business Days after notice given by the Standby Purchaser to the State; or

(6) Any representation or warranty made by the State in this Agreement, the Commercial Paper Resolution or any other document or certificate furnished pursuant hereto or thereto shall have been incorrect in any material respect as of the date made; or

(7) The State shall default in the due performance or observance of any term, covenant or agreement contained in Section 5.02(a), (b), (c), (h) or (i) hereof; or

(8) The State shall default in the due performance or observance of any term, covenant or agreement contained in Article V (other than those covered by paragraph (7) above) and such default, if capable of being remedied, shall remain unremedied for twenty (20) days after written notice thereof shall have been given to the State by the Standby Purchaser; provided, that so long as the State shall be proceeding with due diligence to remedy any default in the due performance or observance of such covenants which, if begun and pursued with due

diligence, cannot be completed within a period of twenty (20) days, then such twenty (20) day period shall be extended to the extent as shall be necessary to enable the State to begin and complete the remedying of such default through the exercise of due diligence; provided further, that in no event shall such period be extended by more than sixty (60) days; or

(9) Any material provision of this Agreement or any other Related Document shall at any time or for any reason cease to be valid and binding and enforceable in accordance with its terms, which binding effect and enforceability (but not validity) may be limited by State law, or shall be finally declared to be null and void by any court or governmental authority or agency having jurisdiction in a judicial or administrative proceeding; or

(10) Except as described in paragraphs (1) through (9) of this Section, default by the State in the performance of any material provision of this Agreement, and the continuance of such default unremedied for thirty (30) days after the State had notice thereof; or

(11) The State takes any action or fails to take any action affecting its ability or willingness to pay its debts and such action or inaction results in a reduction of the State's long-term general obligation bond rating below A (without regard to any gradations within such rating category) by both Moody's and Standard & Poor's; or

(12) Both Moody's and Standard & Poor's shall have assigned the Commercial Paper a rating below P-1 and A-1+, respectively;

provided, however, that with respect to the Events of Default specified above, the Standby Purchaser shall have given written notice (except for the State's failure to perform under Section 5.02(j)) to the State, the Issuing and Paying Agent and the Dealer that the Standby Purchaser declares the same to be an Event of Default hereunder.

SECTION 6.02. Remedies. If any Event of Default shall have occurred and be continuing, the Standby Purchaser may, at the same or different times, so long as such Event of Default shall not have been remedied to the satisfaction of the Standby Purchaser, take one or more of the following actions: (i) deliver to the State, the Issuing and Paying Agent and the Dealer a notice in the form of Exhibit B ("No-Issuance Instructions"), upon receipt of which the State shall cease issuing Commercial Paper as provided in Section 6.03; (ii) by notice to the State, declare all obligations of the State payable under Sections 2.03 and 7.03 due and payable, whereupon the same shall be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the State to the extent permitted under State law; provided, however, that in the case of the occurrence of any event described in paragraph (6) of Section 6.01, all obligations of the State payable under Sections 2.03 and 7.03 shall become due and payable forthwith without the requirement of notice and without presentment, demand or notice of any kind, all of which are expressly waived by the State to the extent permitted under State law; and (iii) proceed to enforce all other remedies available to it under this Agreement, the Related Documents and applicable law.

SECTION 6.03. No-Issuance Instructions. Upon receipt of No-Issuance Instructions, the State shall cease issuing Commercial Paper unless and until such No-Issuance Instructions are rescinded. Any such notice received after 11:30 a.m., New York City time, shall be deemed

to have been received on the next Business Day. Notwithstanding anything in this Section which may be to the contrary, prior to the occurrence of a Special Event of Default and termination of the Standby Purchaser's obligation to purchase Commercial Paper pursuant to Section 2.04(ii), a No Issuance Instruction shall not affect the obligation of the Standby Purchaser to purchase Commercial Paper issued prior to the receipt by the State of such No-Issuance Instructions. Any No-Issuance Instructions given pursuant to Section 6.02 shall be revoked immediately upon notice of waiver or non-continuance of each and every Event of Default giving rise to such No-Issuance Instructions, by notice in writing of the Standby Purchaser delivered to the State, the Dealer and the Issuing and Paying Agent substantially in the form of Exhibit C.

SECTION 6.04. Special Events of Default. The following shall constitute “Special Events of Default” and the remedies available therefor:

(a) The State shall fail to pay, or cause to be paid, when due, any amount due and owing on the principal of (provided the Standby Purchaser is not required to first make payment of such principal pursuant to this Agreement and other Related Documents) or interest on any Commercial Paper; or

(b) The issuance of any Commercial Paper shall result in a violation by the State of any law, rule or regulation, or any order of any court, governmental agency or regulatory body, or any indenture or loan or credit agreement (including this Agreement), or any other agreement or instrument, applicable to the State or to such issuance, pursuant to a final administrative determination or judicial decision from which there shall not exist any further right of appeal (or against which a timely appeal shall not have been filed by the State); or

(c) The validity, or enforceability to the extent permitted by State law, of this Agreement, the Commercial Paper or the Commercial Paper Resolution, shall be contested by the State or the State shall deny that it has any or further liability or obligation under this Agreement, the Commercial Paper or the Commercial Paper Resolution; or

(d) Both Moody's and Standard & Poor's shall have assigned the Commercial Paper a rating below P-3 and A-3+, respectively; or

(e) The State imposes a debt moratorium, debt restructuring, debt adjustment or comparable restriction on repayment when due and payable of the principal of or interest on any State obligations, or the State shall take any other action that takes advantage of or uses the powers of a sovereign entity to refuse to pay its debts in accordance with the terms thereof, or to comply with any of its lawful obligations or commitments under the Commercial Paper, or any other general obligation notes or bonds issued by the State; or

(f) Either the State or the State Funding Board (A) applies for or consents to the appointment of, or the taking of possession by, a receiver, custodian, trustee, or liquidator of itself or of all or of a substantial part of its property or assets, (B) admits in writing its inability, or is generally unable, to pay its debts as they become due, (C) makes a general assignment for the benefit of creditors, (D) files a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, winding-up or composition or adjustment of

debts, or (E) takes any action for the purpose of effecting any of the acts set forth above in this Section;

then (A) automatically the Commitment and the obligations of the Standby Purchaser under this Agreement shall immediately terminate, and the Standby Purchaser shall immediately deliver No-Issuance Instructions to the State, the Issuing and Paying Agent and the Dealer, upon receipt of which the State shall cease issuing Commercial Paper as provided in Section 6.03, and (B) the Standby Purchaser may pursue any other rights or remedies under this Agreement, applicable law or otherwise. The Standby Purchaser agrees to give the State prompt notice of the occurrence of any Special Event of Default hereunder, it being understood and agreed by the parties hereto, however, that the failure to give such notice by the Standby Purchaser or the failure to receive such notice by the State shall not be deemed the failure of a condition precedent to the Standby Purchaser's rights under this Article VI following the occurrence of a Special Event of Default. As and until such time as the Standby Purchaser shall have actual knowledge of the occurrence of a Special Event of Default as described herein, the Standby Purchaser shall, notwithstanding the occurrence of a Special Event of Default, continue to be entitled to the benefits of this Agreement including, but not limited to, reimbursement for its Commitment Fees and other costs hereunder as and to the same extent as if no such Special Event of Default had occurred.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. Notices and Payments. (a) All notices, requests and other communications required or permitted (except to the extent otherwise expressly provided for herein) under the terms and provisions hereof shall be sent by first-class mail (postage prepaid), telex, telecopy or other written electronic means or delivered to the addresses and the persons specified below:

If to the State:

State Funding Board
State of Tennessee
Suite 1600, James K. Polk Building
Nashville, TN 37243-0273
Attention: Director, Office of State and Local Finance
Telephone No.: (615) 747-5370
Telecopy No.: (615) 741-5986

If to the Issuing and Paying Agent concerning the daily issuance and redemption of Commercial Paper and otherwise:

Regions Bank
Attention: Commercial
Paper Operations
Department
250 Riverchase Parkway
east, 5th Floor
Hoover, AL 35244
Telephone No.: (866) 512-3479, (205) 560-
5832 or (205) 560-5833
Telecopy: (205) 560-7923

With a copy to:

Regions Bank
Corporate Trust Department
150 4th Avenue North, Suite 900
Nashville, TN 37219
Telephone No.: (615) 770-4359, (615) 770-
4360, (615) 770-4352 & (615) 770-4362
Telecopy No.: (615) 770.4350
E-mail delivery to:
wallace.duke@regions.com,
angela.crachiolo@regions.com,
inna.culp@regions.com & elizabeth.lance

If to the Standby Purchaser:

Tennessee Consolidated Retirement System
Investment Division
Andrew Jackson Building, 13th Floor
Nashville, TN 37243
Attention: Chief Investment Officer
Telephone No.: (615) 532-1157
Telecopy No.: (615) 253-4969

with a copy to

Tennessee Consolidated Retirement System
Investment Division
Andrew Jackson Building, 13th Floor
Nashville, TN 37243
Attention: Senior Short-Term Portfolio Manager
Telephone No.: (615) 532-1166
Telecopy No.: (615) 734-6456

If to the Dealer:

Morgan Stanley & Co. Incorporated 1221
Avenue of the Americas, 30th Floor New
York, New York 10020
Attention: Remarketing Coordinator
Telephone No.: (212) 762-8263
Telecopy No.: (212) 507-1937

or, if to any of the foregoing, to it at such other address as the same may designate from time to time by notice duly given to the other persons designated above. Each of the foregoing will advise the other persons designated above from time to time of its telecopy (if different from those set forth above) or telephone numbers (if any) and of the names and persons (together with their respective telephone numbers) to whom notices by telephone call hereunder shall be directed.

(b) Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section and telephonic or telecopied confirmation of receipt is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in this Section; provided, however, that notices to the Standby Purchaser (A) under Sections 2.01 and 2.04 shall not be effective until received, (B) under Section 2.01 shall, to the extent provided in Section 2.01(e), also be given by telephone to the Senior Short-Term Portfolio Manager or Chief Investment Officer of the Standby Purchaser and (C) under Section 2.04 may also be given by telephone to the Chief Investment Officer of the Standby Purchaser. All such telephonic notices shall be given to telephone number (615) 741-7063 (or such other telephone number as may be designated by the Standby Purchaser, by written notice to the State, to receive such notice), immediately confirmed in writing or by telecopier.

(c) Payment instructions for fees due to the Standby Purchaser shall be designated in writing by the Standby Purchaser to the State, and payment instructions for amounts due to the Standby Purchaser upon the payment of Purchased Commercial Paper shall be designated in writing by the Standby Purchaser to the State, the Issuing and Paying Agent and the Dealer.

SECTION 7.02. No Waivers. (a) The obligations of the Standby Purchaser hereunder shall not in any way be modified or limited by reference to any other document, instrument or agreement (including, without limitation, the Commercial Paper or any other Related Document). The rights of the Standby Purchaser are separate from and in addition to any rights that it may have as an owner of any Commercial Paper and that any owner of Commercial Paper may have under the terms of such Commercial Paper or any other Related Document or otherwise.

(b) No failure or delay by the Standby Purchaser in exercising any right, power or privilege hereunder or under the Commercial Paper shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law. No failure to exercise a right, power or privilege under or in respect of the Commercial Paper or any other Related Document shall affect the rights, powers or privileges of the Standby Purchaser hereunder or shall operate as a limitation or waiver thereof.

SECTION 7.03. Fees, Expenses and Taxes. The State shall, as soon as practicable after demand, pay any and all reasonable out-of-pocket fees, expenses and documentary stamp, intangible and other similar taxes, if any, of the Standby Purchaser, payable in connection with the preparation, execution, delivery of this Agreement and the Related Documents, the performance and enforcement of the obligations of the State under this Agreement and the Related Documents and any amendments thereto or waivers thereof and the rights for the Standby Purchaser with respect to Commercial Paper (including fees of counsel to the Standby Purchaser, plus any charges and disbursements of such counsel related thereto), and any filings or recordings required to perfect the liens and security interests created under the Commercial Paper Resolution, if any. All amounts due to the Standby Purchaser pursuant to this Section 7.03 shall accrue interest from the date such amounts are due until paid at the Standby Purchaser Rate.

SECTION 7.04. Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the State and the Standby Purchaser; provided, however, that no waiver or amendment shall be effective as to any Commercial Paper unless (i) the State and the Standby Purchaser agree that the same does not materially adversely affect the rights of the Holders of such Commercial Paper or (ii) such Holders shall have consented in writing to such waiver or amendment or (iii) such waiver or amendment is effective with respect to Commercial Paper issued subsequent to the effectiveness of such waiver or amendment. The parties agree that the amendment and restatement of this Agreement as of July 1, 2016 does not materially adversely affect the rights of the Holders of any Commercial Paper.

SECTION 7.05. Term of this Agreement. The term of this Agreement shall be until the latest of (i) the Expiration Date, (ii) payment in full of the principal of and interest on all Purchased Commercial Paper and (iii) the day on which all other amounts payable hereunder to the Standby Purchaser shall have been paid in full.

SECTION 7.06. Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of Tennessee.

SECTION 7.07. Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 7.08. Beneficiaries. This Agreement is made solely for the benefit of the State and the Standby Purchaser and their respective successors and assigns, and no other person or entity shall have the right, benefit or interest under or because of the existence of this Agreement; provided, that neither the State nor the Standby Purchaser may assign all or any part of this Agreement without the prior written consent of the other party, which consent shall not be reasonably withheld.

SECTION 7.09. Severability. Any provision of this Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or nonauthorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

SECTION 7.10. Successors. The obligations of the State Funding Board and the Standby Purchaser under this Agreement shall be binding on their respective successors.

SECTION 7.11. Headings. Section headings in this Agreement are included herein for convenience or reference only and shall not constitute a part of this Agreement for any other purpose.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

STATE OF TENNESSEE
By: FUNDING BOARD OF THE
STATE OF TENNESSEE

TENNESSEE CONSOLIDATED RETIREMENT
SYSTEM

By: _____
JUSTIN P. WILSON, Comptroller
and Secretary, Funding Board, of the
State of Tennessee

By: _____
DAVID H. LILLARD, JR.,
Tennessee Treasurer
and Chair of the Board of Trustees of the
Tennessee Consolidated Retirement System

[Signature Page to Standby Commercial Paper Purchase Agreement]

NOTICE OF REQUIRED PURCHASE

[Date]

Tennessee Consolidated Retirement System
Investment Division
Andrew Jackson Building, 13th Floor
Nashville, Tennessee 37243
Attention: Chief Investment Officer
(615) 532-1157

State Funding Board
State of Tennessee
Suite 1600, James K. Polk Building
Nashville, TN 37243-0273
Attention: Director, Office of State and
Local Finance

Tennessee Consolidated Retirement System
Investment Division
Andrew Jackson Building, 13th Floor
Nashville, Tennessee 37243
Attention: Senior Short-Term Portfolio Manager
(615) 532-1166

Ladies and Gentlemen:

Reference is made to the Standby Commercial Paper Purchase Agreement dated as of July 1, 2016 (the "Agreement"), by and between the State of Tennessee (the "State"), acting by and through the Funding Board of the State, and the Tennessee Consolidated Retirement System (the "Standby Purchaser"). Capitalized terms used herein shall have the meanings given to them in or by reference to the Agreement.

Pursuant to Section 2.01(e) of the Agreement, we hereby give you notice that the Dealer has given us notice of the Dealer's inability to sell on the date hereof \$_____ aggregate principal amount of Commercial Paper to pay the principal of currently outstanding Commercial Paper maturing on the date hereof in the same aggregate principal amount, and that such unsold Commercial Paper is required to be purchased by the Standby Purchaser on the date hereof pursuant to Section 2.01 of the Agreement at a price of par. In accordance with the provisions of the Commercial Paper Resolution and the Agreement, the purchase price should be provided by wire transfer in immediately available funds.

In addition, we hereby certify that we have not received notice of the occurrence and continuance of a Special Event of Default.

Very truly yours,

REGIONS BANK

By: _____
Name:
Title:

NO-ISSUANCE INSTRUCTIONS

[Date]

State Funding Board
State of Tennessee
Suite 1600, James K. Polk Building
Nashville, TN 37243-0273
Attention: Director, Office of State
and Local Finance

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas, 30th Floor
New York, New York 10020
Attention: Remarketing Coordinator

Regions Bank
Attention: Commercial Paper Operations
Department
250 Riverchase Parkway east, 5th Floor
Hoover, AL 35244
Telephone No.: (866) 512-3479,
(205) 560-5832 or (205) 560-5833
Telecopy: (205) 560-7923

Re: State of Tennessee General Obligation Commercial Paper, Series

Ladies and Gentlemen:

Reference is made to the Standby Commercial Paper Purchase Agreement dated as of July 1, 2016 (the "Agreement"), by and between the State of Tennessee, acting by and through the Funding Board of the State of Tennessee, and the Tennessee Consolidated Retirement System. Capitalized terms used herein shall have the meanings given to them in or by reference to the Agreement.

We hereby give you notice that because [an Event of Default has occurred and is continuing, you are hereby instructed not to issue any Commercial Paper unless and until we rescind these No-Issuance Instructions] [the Agreement has been terminated, you are hereby instructed not to issue any Commercial Paper].

Very truly yours,

TENNESSEE CONSOLIDATED RETIREMENT
SYSTEM

By: _____
Name:
Title:

NO-ISSUANCE RESCISSION NOTICE

[Date]

State Funding Board
State of Tennessee
Suite 1600, James K. Polk Building
Nashville, TN 37243-0273
Attention: Director, Office of State
and Local Finance

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas, 30th Floor
New York, New York 10020
Attention: Remarketing Coordinator

Regions Bank
Attention: Commercial Paper Operations
Department
250 Riverchase Parkway east, 5th Floor
Hoover, AL 35244
Telephone No.: (866) 512-3479,
(205) 560-5832 or (205) 560-5833
Telecopy: (205) 560-7923

Re: State of Tennessee General Obligation Commercial Paper, Series

Ladies and Gentlemen:

Reference is made to the Standby Commercial Paper Purchase Agreement dated as of July 1, 2016 (the "Agreement"), by and between the State of Tennessee, acting by and through the Funding Board of the State of Tennessee, and the Tennessee Consolidated Retirement System. Capitalized terms used herein shall have the meanings given to them in or by reference to the Agreement.

On _____, 20 , we gave you No-Issuance Instructions because an Event of Default had occurred and was continuing, instructing you not to issue any Commercial Paper unless and until we rescind those No-Issuance Instructions. We hereby give you notice that because such Event of Default has been waived or no longer continues, such No-Issuance Instructions are hereby rescinded and shall be of no further force or effect.

Very truly yours,

TENNESSEE CONSOLIDATED RETIREMENT
SYSTEM

By: _____
Name:
Title:

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATE OF TENNESSEE**



DAVID H. LILLARD, JR.
STATE TREASURER

TREASURY DEPARTMENT
STATE CAPITOL

MARY JO PRICE
CHIEF OPERATING OFFICER

NASHVILLE, TENNESSEE 37243-0225

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

JILL BACHUS
DIRECTOR OF TCRS

To: Justin P. Wilson, Comptroller – Secretary, State Funding Board

From: Michael Brakebill, Chief Investment Officer

Date: June 2, 2016

Subject: Liquidity Guarantee Fee Schedule

The purpose of this memo is to propose the fee structure in place for TCRS's liquidity guarantee. This fee structure is reviewed and updated annually and is modified based on market conditions for comparable guarantee programs.

Under last year's agreement, TCRS was reimbursed 30 basis points for providing the Liquidity Guaranty while the State carried a rating of AAA/AA. There have not been any funding requests in the history of providing back-up support to the Funding Board. Market conditions for liquidity support agreements have been stable for the last few years but changing regulatory requirements have reduced their use.

Treasury staff reviewed information on the rate for one year high quality General Obligation bonds and surveyed high quality domestic banks that provide this service. Based on this review of market conditions, I would like to propose a rate of 30 basis points for ratings of AAA by Moody's or Standard and Poor's, 45 basis points for AA, and 70 basis points A or below.

This recommendation is assuming that the fees will apply beginning June 30, 2016 through June 30, 2017. A review will then be conducted in June, 2017 to establish the fee schedule for the next fiscal year. It is further provided that the liquidity commitment for fiscal 2017 shall not exceed \$350 million.

If you have any questions, please call me at (615) 532-1157.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Brakebill".

Michael Brakebill, CFA
Chief Investment Officer

OFFERING MEMORANDUM DATED JUNE 9, 2016

BOOK-ENTRY-ONLY

Commercial Paper Ratings

P-1/A-1+

(See "Ratings" herein)

\$350,000,000
State of Tennessee
General Obligation Commercial Paper
Series A (Tax-Exempt)
Series B (Federally Taxable)

This Offering Memorandum contains information concerning the Commercial Paper program of the State of Tennessee (the "State") which commenced on March 14, 2000. Commercial Paper is issued to provide interim or short-term financing of various capital projects and purposes as described herein. Commercial Paper will be issued either as Tax-Exempt Commercial Paper or as Federally Taxable Commercial Paper, or both.

Commercial Paper constitute bond anticipation notes and are direct general obligations of the State for the payment of the principal of and interest on which there is also pledged the full faith and credit of the State. Principal of Commercial Paper, to the extent not paid from proceeds of general obligation bonds and proceeds of other Commercial Paper (including Commercial Paper purchased pursuant to the Standby Purchase Agreement described in the next sentence), and interest on Commercial Paper are payable from other available moneys of the State. The State has entered into a Standby Commercial Paper Purchase Agreement as amended (the "Standby Purchase Agreement") with the Tennessee Consolidated Retirement System ("TCRS") under which TCRS is obligated to purchase newly issued Commercial Paper issued to pay the principal of other Commercial Paper, subject to suspension or termination upon the occurrence of certain events described herein. The Standby Purchase Agreement will terminate at the close of business on the Expiration Date, unless terminated prior to such date in accordance with its terms.

Commercial Paper will be sold at par as interest-bearing obligations in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess of such amount, with interest payable at maturity. Commercial Paper will have varying maturities of not more than 270 days from their respective dates of issuance (but not later than the sixth business day prior to the stated expiration date of the Standby Purchase Agreement or other applicable Liquidity Facility) and will be issued in book-entry-only form through The Depository Trust Company. Regions Bank is Issuing and Paying Agent for Commercial Paper.

Morgan Stanley & Co. Incorporated acts as exclusive dealer in connection with the offering of Commercial Paper.

MORGAN STANLEY

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations with respect to Commercial Paper other than as contained in this Offering Memorandum and, if given or made, such other information or representations must not be relied upon. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of Commercial Paper by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the State and TCRS. Certain other information set forth herein has been obtained by the State from sources believed to be reliable, but is not guaranteed as to accuracy or completeness.

The information set forth herein is subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

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SUMMARY OF THE TERMS OF THE PROGRAM

This Summary is subject in all respects to more complete information contained in this Offering Memorandum and should not be considered to be a complete statement of the facts material to making an investment decision. The offering of Commercial Paper to potential investors is made only by means of the entire Offering Memorandum.

Issuer:	State of Tennessee
Designation:	General Obligation Commercial Paper, Series A (Tax-Exempt) General Obligation Commercial Paper, Series B (Federally Taxable)
Amount:	Maximum principal amount outstanding of \$350,000,000
Ratings:	Commercial Paper: P-1/A-1+ Long-term general obligation bonds of the State: Aaa/AA+
Security:	Full faith and credit of the State of Tennessee
Liquidity:	Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System (principal only)
Offering Price:	100% of principal amount
Maturities:	Up to 270 days from date of issue
Principal Amounts and Minimum Purchase:	\$100,000 minimum principal amount and integral multiples of \$1,000 in excess thereof
Interest Payments:	Payable at maturity
Form:	DTC Book-Entry-Only
Redemption:	Not redeemable prior to maturity; not subject to voluntary prepayment
Tax Status:	Series A: Tax-Exempt Series B: Federally Taxable
SEC Filing Status:	Exempted Securities under Section 3(a) (2) of the Securities Act of 1933
Issuing and Paying Agent:	Regions Bank
Dealer:	Morgan Stanley & Co. Incorporated
Issuer Contact:	Director of Office of State and Local Finance, Suite 1600 James K. Polk Building, 505 Deaderick Street, Nashville, Tennessee 37243-0273; telephone (615) 747-5370; fax (615) 741-5986

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DRAFT

\$350,000,000
State of Tennessee
General Obligation Commercial Paper
Series A (Tax-Exempt)
Series B (Federally Taxable)

INTRODUCTION

This Offering Memorandum, including the cover page and the Appendices (including the financial information referred to in the Appendices), is provided to furnish information in connection with the issuance from time to time by the State of Tennessee (the "State") of its general obligation Commercial Paper ("Commercial Paper"). Commercial Paper will be issued either as (i) Tax-Exempt Commercial Paper, the interest on which is intended to be excluded from gross income for federal income tax purposes, or (ii) Federally Taxable Commercial Paper, the interest on which is intended to be included in gross income for federal income tax purposes, or both.

Commercial Paper will be issued pursuant to various bond authorizations enacted by the General Assembly of the State and under and pursuant to a Commercial Paper Resolution adopted by the members of the Funding Board of the State (the "State Funding Board") on March 6, 2000 as amended and restated on August 5, 2009 (as it may be further supplemented and amended, the "Commercial Paper Resolution"). The State has entered into the following agreements in connection with Commercial Paper:

Issuing and Paying Agency Agreement (as it may be supplemented and amended, and together with any successor agreement, the "Issuing and Paying Agency Agreement") between the State and Regions Bank, an Alabama banking corporation (together with any successor, the "Issuing and Paying Agent").

Dealer Agreement (as it may be supplemented and amended, and together with any successor agreement, the "Dealer Agreement") between the State and Morgan Stanley & Co. Incorporated, New York, New York (together with any successor, the "Dealer").

Standby Commercial Paper Purchase Agreement (as it may be supplemented and amended, the "Standby Purchase Agreement") between the State and the Tennessee Consolidated Retirement System ("TCRS" and, in its capacity as the standby Commercial Paper purchaser under the Standby Purchase Agreement, the "Standby Purchaser"). The State may enter into another standby purchase agreement or other liquidity or credit facility with respect to Commercial Paper (each, together with the Standby Purchase Agreement, a "Liquidity Facility") in lieu of the Standby Purchase Agreement or other Liquidity Facility.

Brief descriptions of Commercial Paper, the Commercial Paper Resolution, and the Standby Purchase Agreement are included in this Offering Memorandum or in an Appendix hereto. Such descriptions do not purport to be comprehensive or definitive, and all references herein to Commercial Paper, the Commercial Paper Resolution, the Standby Purchase Agreement, and various other documents and instruments mentioned herein, are qualified in their entirety by reference to the respective document or instrument, copies of which are available from the State and the Dealer.

The State's audited financial statements are included in the State's Comprehensive Annual Financial Report ("CAFR") filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system. The State's audited financial statements are described in and incorporated herein by Appendix A. Selected statistical and economic data are described in and incorporated herein by Appendix B.

Information relating to TCRS, including its investments, is contained in Appendix C.

A summary of certain provisions of the Commercial Paper Resolution is attached as Appendix E. A summary of certain provisions of the Standby Purchase Agreement is attached as Appendix F. Certain definitions used in these summaries are included in Appendix D.

Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the State Funding Board, rendered its opinion dated August 28, 2009, with respect to certain legal matters relating to Commercial Paper, including the exclusion of interest on Tax-Exempt Commercial Paper from gross income for Federal income tax purposes and the

exemption of interest on Tax-Exempt Commercial Paper and Federally Taxable Commercial Paper from certain Tennessee taxes, in the form attached as Appendix H. Such opinion speaks as of its date and is not being reissued. See also "Tax Matters" herein.

The address of the State Funding Board is Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273; telephone (615)747-5370; fax (615)741-5986.

Capitalized terms used herein which are not otherwise defined herein have the meanings given to them in the Commercial Paper Resolution.

PURPOSE OF PROGRAM

Proceeds of Commercial Paper are to be applied to (i) the payment of costs of projects as described below, and (ii) the payment of the principal of maturing Commercial Paper.

Commercial Paper may be issued from time to time for the purpose of financing the construction of and improvements, repairs, replacements, additions and betterments to buildings and facilities, and the acquisition of land and other property in connection therewith, of the State and the various departments, agencies, and boards thereof, including the Tennessee Board of Regents of the State University and Community College System and the Board of Trustees of The University of Tennessee, as well as to finance certain grants that may be made by the State and for other authorized purposes.

The General Assembly of the State from time to time enacts public acts authorizing various capital projects and the issuance of general obligation bonds of the State (the "Bonds") and Bond anticipation notes (which includes Commercial Paper) to finance them. The particular projects to be financed by the issuance of Commercial Paper will be determined from time to time as and when funds are needed or projected to be needed.

PROGRAM DESCRIPTION

Commercial Paper may be issued under the Commercial Paper Resolution in a principal amount outstanding at any one time not to exceed \$350,000,000. Commercial Paper may be issued either as Tax-Exempt Commercial Paper or as Federally Taxable Commercial Paper, or as both.

If and for so long as TCRS is the Standby Purchaser, the principal amount of Commercial Paper maturing on any day shall not exceed \$100,000,000 or such greater principal amount as agreed upon by the State and TCRS.

Commercial Paper will have varying maturities of not more than 270 days from their respective dates of issuance and in no event later than the sixth Business Day prior to the stated Expiration Date without regard to any early termination; provided, however, that Commercial Paper purchased by the Liquidity Provider pursuant to the Standby Purchase Agreement may mature later than the sixth Business Day prior to the Expiration Date, but in no event later than the Expiration Date. The Expiration Date is the date on which the Liquidity Facility expires in accordance with its terms, currently July 1, 2021, subject to earlier termination in accordance with its terms. See Appendix D for a definition of Business Day.

Commercial Paper is issuable at par as interest-bearing obligations in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess of such amount. Commercial Paper will bear interest from their date at a rate not in excess of the Maximum Rate, payable at maturity with principal, computed on the basis of actual days elapsed, including the issue date and excluding the maturity date, and a 365 or 366 day year for Tax-Exempt Commercial Paper or a 360 day year for Federally Taxable Commercial Paper. See Appendix D for a definition of Maximum Rate.

Commercial Paper is not subject to redemption prior to maturity.

All Commercial Paper shall be issued in book-entry-only form through The Depository Trust Company. See Appendix G.

The Commercial Paper Resolution prescribes certain procedures and conditions that must be complied with by the State prior to and in connection with the issuance of Commercial Paper. For a description of these procedures

and conditions, see Appendix E - "Summary of Certain Provisions of the Commercial Paper Resolution - Conditions to Issuance of Commercial Paper" and "- Certain Covenants".

The State may terminate the Dealer Agreement at any time by giving at least ten business days' prior written notice. No such termination shall be effective until a replacement Dealer has been accepted by the State. The Dealer may terminate the Dealer agreement at any time by giving at least sixty business days' prior written notice.

SECURITY FOR COMMERCIAL PAPER

Sources of Payment and Security

Commercial Paper constitute bond anticipation notes and (as with all State general obligation bonds and other State general obligation notes) constitute (a) direct general obligations of the State for the payment of the principal of 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, except only such fees, taxes, revenues and funds as may be otherwise legally restricted. Such charge and lien on fees, taxes and other revenues is subject to the specific pledge of "Special Taxes" in favor of State general obligation bonds outstanding as of 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.

Principal of Commercial Paper, to the extent not paid from proceeds of general obligation bonds and proceeds of other Commercial Paper (including Commercial Paper purchased by the Standby Purchaser pursuant to the Standby Purchase Agreement as described in the next paragraph), and interest on Commercial Paper are payable from other available moneys of the State. The State covenants with the holders of all State general obligation bonds and notes, including Commercial Paper, 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 all State general obligation bonds and notes, including Commercial Paper, as and when due and payable.

Under the Standby Purchase Agreement, TCRS is obligated to purchase newly issued Commercial Paper, issued to pay the principal of other Commercial Paper, subject to suspension or termination upon the occurrence of certain events. The Standby Purchase Agreement will terminate at the close of business on the Expiration Date, unless terminated prior to such date in accordance with its terms. For a summary of certain provisions of the Standby Purchase Agreement, see Appendix F.

Unless the payment of the principal of Commercial Paper otherwise shall be provided for by or on behalf of the State from proceeds of other Commercial Paper or other available moneys, on or before the respective maturity dates thereof the State Funding Board shall, to the extent and as permitted by law, provide for the issuance, sale and delivery of Bonds or other obligations of the State (or otherwise obtain governmental financing) in an amount sufficient to provide for the payment of the outstanding principal of Commercial Paper at maturity.

All general obligation indebtedness of the State is on a parity and shares pro rata with all other general obligation indebtedness of the State, except that the allocations of annual sales and use tax collections currently secure only general obligation bonds and the Special Taxes secure only general obligation bonds outstanding as of July 1, 2013. 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.

The State has issued and may issue additional general obligation bonds and bond anticipation notes (including Commercial Paper) for the payment of which the full faith and credit of the State, and as to certain bonds described above Special Taxes, are pledged. 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 tax revenue anticipation notes and has no current intent to do so.

The General Assembly appropriates for each fiscal year the first year's debt service for all authorized but unissued Bonds excluding Facility Revolving Fund bonds, highway bonds, and any revenue generating project bonds, based on level principal amortization and an assumed interest rate, currently five percent (5%), as well as the actual

debt service for all issued Bonds. The appropriation for the first year's debt service for all authorized but unissued bonds excluding Facility Revolving Fund bonds, highway bonds, and any revenue generating project bonds for the fiscal year which began on July 1, 2015, is \$132,922,000. In the absence of a specific appropriation for the principal of or interest on particular Bond anticipation notes, the State utilizes the appropriation of the first year's debt service on authorized but unissued Bonds to make the necessary payments of principal of and interest on any Bond anticipation notes issued (including Commercial Paper).

The State expects maturing Commercial Paper to be paid through the issuance of additional Commercial Paper (including Commercial Paper purchased by the Standby Purchaser) or Bonds. Therefore, the State does not intend to appropriate for each fiscal year a specific amount sufficient to pay the principal of all Commercial Paper authorized by the Commercial Paper Resolution. The State expects that the appropriation of the first year's debt service for all authorized but unissued Bonds will be sufficient to pay the interest on all issued Commercial Paper as long as Commercial Paper bears interest costs no greater than the total debt service amount appropriated in the then current fiscal year's appropriation. However, if the Standby Purchaser should fail to purchase Commercial Paper as required by the Standby Purchase Agreement, or if the Standby Purchase Agreement terminates as permitted thereby and if Bonds are not issued in a timely manner to pay the principal of maturing Commercial Paper, there can be no assurance that there will be a sufficient amount available from appropriated funds to pay such principal.

Remedies and Rights of Holders

Commercial Paper when duly issued will constitute a contract between the State and the registered owner of Commercial Paper. The State has not generally waived immunity from suit or extended its consent to be sued. However, 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 Tennessee Claims Commission, an administrative tribunal, where the State may be liable only for actual damages and certain costs.

Under the State Constitution, money may be drawn from the Treasury, including but not limited to draws for the purposes of paying debt service and funding any judgment in the Tennessee Claims Commission, only through an appropriation made by law. 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 Commercial Paper and other notes, and the State Funding Board is authorized to make debt service payments on outstanding general obligation bonds and other debt obligations, including Commercial Paper and other notes, from any funds held in the State treasury not otherwise legally restricted, independent of an appropriation bill otherwise required by State law. Whether a continuing appropriation exists for the payment of a claim in the Tennessee Claims Commission for unpaid debt service is not clear, and in any event sovereign immunity and other legal principles may bar actions to compel the General Assembly to appropriate moneys for such payments.

Tax Covenants

The State covenants in the Commercial Paper Resolution that no use of the proceeds of Tax-Exempt Commercial Paper or any other funds of the State will be made which will cause any Tax-Exempt Commercial Paper to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code. To that end, the State will comply with all requirements of said Section 148 and of all regulations issued thereunder or otherwise applicable thereto.

The State covenants that it will not use any proceeds of Tax-Exempt Commercial Paper or any other funds held under the Commercial Paper Resolution for any purpose which would cause any Tax-Exempt Commercial Paper to be subject to treatment as a "private activity bond" defined in Section 141 of the Code.

STATE FINANCES

The State Funding Board is 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 the University of Tennessee, Boyd Center for Business and Economic Research, present revenue estimates and economic forecasts. The State Funding Board also hears from representatives of 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.

The State Funding Board met on November 13, 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 State Funding Board reconvened on November 23, 2015, and adopted the following revised consensus recurring tax revenue growth projections for the 2015-2016 fiscal year (growth measured against actual results for the 2014-2015 fiscal year, as set forth in the following table) and for the 2016-2017 fiscal year (recurring growth measured against the potential range of results for the 2015-2016 fiscal year, as set forth in the following table):

	Fiscal Year 2014-2015 Results	Fiscal Year 2015-2016		Fiscal Year 2016-2017	
		Low	High	Low	High
Total State Taxes	\$ 12,439,377,800	2.80%	3.30%	2.50%	3.00%
General Fund Only	\$ 10,382,962,800	2.90%	3.40%	2.75%	3.25%

On an accrual basis (April is the ninth month of the fiscal year 2015-2016) total state tax collections for the nine months (August through April) were \$757.1 million more than the budgeted estimate. The general fund was \$698.4 million above budgeted estimates and the four other funds were \$58.7 million more than the budgeted estimate.

Investor Updates for the fiscal year may be viewed at the following site: <http://www.comptroller.tn.gov/SL/investorupdates.asp>

STATE INDEBTEDNESS

The State Funding Board is the entity authorized to issue general obligation indebtedness of the State, and may do so without concurrence or approval by any other governmental agency or by the electorate. 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.

State general obligation Bonds are issued pursuant to Title 9, Chapter 9, Tennessee Code Annotated, and specific acts of the General Assembly authorizing the Bonds. Bond anticipation notes, including Commercial Paper, may be issued for purposes for which Bonds have been authorized, if the notes also are authorized to be issued by the related bond act or some other legislative act, which also must prescribe the general terms and provisions for the issuance of such notes. Bond anticipation notes have been authorized to be issued for the purposes of all existing Bond authorizations.

As of May 31, 2016, there were \$1,899,205,000 (unaudited) of Bonds outstanding and \$1,649,065,140 of Bonds authorized but unissued. The only outstanding general obligation indebtedness of the State, other than Bonds, is Commercial Paper.

Other Post-Employment Benefits

In 2004, 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 participate in a Medicare supplemental plan. The State's financial support to this supplemental plan is a fixed amount based on years of service.

A 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.

	As of June 30, 2014 (unaudited)	
	(expressed in thousands)	
	Unfunded Actuarial Liability	ARC
State Employee Group Plan		
State obligation for employees (including Component Units)	\$ 1,225,112	\$ 122,640
Local Education Agency Group Plan		
State obligation on behalf of teachers	294,798	30,355
Medicare Supplement Plan		
State obligation for employees (including Component Units)	154,051	11,381
State obligation on behalf of teachers	137,717	9,207
Total State Obligation	\$ 1,811,678	\$ 173,583

The actuary reports may be reviewed at: <http://www.tn.gov/finance/article/fa-accfin-opeb>. The State has contracted with Gabriel Roeder Smith and Company to provide biennial 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 Comprehensive Annual Financial Report ("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.

During the 2015 Legislative Session, the General Assembly enacted Public Chapter 426, which, among other things, established an investment trust or trusts (the "Trust") for the purpose of pre-funding other post-employment benefits accrued by employees of the State, to be paid as they come due in accordance with arrangements between the State, the plan members, and their beneficiaries. The trustees (the "Trustees") of the Trust are the Commissioner of Finance and Administration, the chair of the Finance, Ways and Means Committee for the Senate, the chair of the Finance, Ways and Means Committee for the House of Representatives, and the State Treasurer, in his capacity as chair of the board of TCRS. The Trustees must adopt, in writing, an investment policy, or policies authorizing how assets in the Trust may be invested. The Trust may invest in any security or investment in which TCRS is permitted to invest; provided, that investments by the Trust shall be governed by the investment policies and guidelines adopted by the trustees. By statute, the state treasurer has the responsibility to invest and reinvest Trust funds in accordance

with the policies and guidelines established by the Trustees and to administer the Trust. The initial funding for the Trust is to be from moneys appropriated by the General Assembly for such purposes. As of the date of this Offering Memorandum, such appropriation has not been made.

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 Offering Memorandum.

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, 2014, and 2015. On April 11, 2016, the Court approved the April 2016 Modified Settlement Agreement and Exit Plan showing compliance with all sections of the Exit Plan that require a maintenance designation. The one year period of time during which DCS must maintain compliance prior to requesting exit from court jurisdiction began on January 1, 2016. At the end of 2016, assuming that DCS has maintained compliance on all provisions, DCS can request exit from court jurisdiction. DCS must then maintain an external accountability center that will generate public reports for eighteen months.

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. It alleged 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 before the end of 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, as of January 1, 2015 Tennessee is once again 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 is in the preliminary stage, 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 believes that it has strong legal and factual arguments that should prevail in a trial of the case. 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 June 29, 2015, the Supreme Court issued an order granting the State of Mississippi's motion to file its action. The State filed its answer on September 14, 2015. The Supreme Court will appoint a Special Master to hear the case. On November 10, 2015, the Court appointed Judge Eugene E. Siler, Jr., to be the Special Master; Judge Siler served full-time on the Sixth Circuit Court of Appeals before assuming senior status in 2001. The Special Master held an initial status conference on January 26, 2016, in which he granted the State's and Memphis' request to file a motion for judgment on the pleadings, and stayed all discovery until he rules on that motion. The motion was filed February 25, 2016. An amicus brief supporting the motion was filed by the United States on March 3, 2016. Mississippi filed its response to the motion on April 6, 2016, along with a motion to exclude what it refers to as references in the defendants' motions and the amicus to facts beyond Mississippi's complaint. On April 28, 2016, the State filed a reply brief to the Mississippi response and also an opposition to Mississippi's motion to exclude. In addition, on that same date the United States filed a memorandum in opposition to Mississippi's motion to exclude.

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.); *BNSF Railway Co., et al. v. Tenn. Dept. of Revenue* (6th Cir. Ct. App.; U.S. Dist. Ct. M.D. Tenn.). These two groups of cases will control the outcome of a number of lawsuits that have been filed by railroads alleging that Tennessee taxes on their purchases of diesel fuel discriminate against them in violation of the federal Railway Revitalization and Regulatory Reform Act (the “4-R Act”). Illinois Central and related cases challenge Tennessee's former taxing regime under which fuel purchases by railroads, but not trucking companies, were subject to the sales tax, even though trucking companies paid a separate, and generally higher, diesel-fuel tax. The federal district court initially ruled for the railroads, but that decision has now been remanded by the Sixth Circuit for further consideration in light of the decision of the United States Supreme Court in a very similar case from Alabama, in which Tennessee authored an amicus brief on behalf of 15 states and in which the Supreme Court ruled that a diesel-fuel tax on trucks could be sufficient justification for their exemption from sales tax on their purchases of diesel fuel. The district court has scheduled proceedings on remand over the next several months. Refunds of approximately \$150 million are at issue in these lawsuits and related potential claims.

Concurrently, the BNSF Railway case challenges the tax presently imposed by the Tennessee Transportation Fuel Equity Act, which places railroads under the same tax obligations as trucking companies. BNSF contends that the new law singles out railroads and violates the 4-R Act. The federal district court denied the railroads' motions for preliminary injunctions but stayed collection pending appeal. The Sixth Circuit has now affirmed the decision that the new Tennessee law does not single out railroads but has remanded to the district court for further consideration of the railroads' claims of discrimination as compared to their ostensible competitors, water carriers, which are exempt from the new act but still pay sales tax on their fuel purchases. Collection of the tax under the current law remains stayed.

In light of the principles announced in the United States Supreme Court and Sixth Circuit decisions, the State believes it will eventually prevail in all of these cases, that the Chancery Court refund actions will be dismissed, and that it will be able to collect the amounts presently being withheld by the railroads and paid into escrow under a private arrangement of the railroad companies.

Comcast Holdings Corp., et al. v. Roberts (Davidson Co. Chancery Ct.): Two franchise and excise tax cases pending under this style seek refunds totaling \$62,436,507, plus interest. They involve questions of whether the plaintiffs should be allowed to compute their net worth on a consolidated basis and whether certain affiliate debt was properly included in the franchise tax base. A major issue is whether Comcast's receipts from its Tennessee customers should be included as Tennessee sales in the receipts factor of its apportionment formula. The Commissioner argues that Comcast's earnings-producing activities take place exclusively in Tennessee when it provides services in this State. Comcast argues that it has earnings-producing activities in several states so that one must look to the location of its costs of performance. Comcast places significant weight on its programming costs, which it says are incurred in Pennsylvania.

The first-filed case is scheduled to be litigated in the trial court by the end of the year.

Hamilton County Bd. Of Ed., Bradley County Bd. Of Ed., McMinn County Bd. Of Ed., Marion County Bd. Of Ed., Grundy County Bd. Of Ed., Coffee County Bd. Of Ed., and Polk County Bd. Of Ed. v. Haslam, Ramsey, Harwell, McQueen, Rolston, Edwards, Chancey, Roberts, Pearre, Tucker, Hartgrove, Johnson, and Troutt, (Davidson Co. Chancery Ct.). The State was served with this suit on March 24, 2015. Seven local school boards brought suit against the Governor, the Speakers of both Houses, the Commissioner of Education, and the members of the State Board of Education, all in their official capacities only, alleging that the State has (1) violated the holdings of the Tennessee Supreme Court in three previous education funding cases, as well as the Tennessee Constitution and (2) violated State education funding statutes. The essential claim of the Complaint is that the State does not adequately fund public education in Tennessee. The Complaint seeks a declaratory judgment holding that (a) the current system of funding public education violates Article XI, Section 12, of the Tennessee Constitution, and fails to provide a free public education, (b) the State educational funding system fails to provide Tennessee students with substantially equal educational opportunities, (c) the General Assembly must appropriate sufficient funds to fully implement the recommendations of the State's Basic Education Program ("BEP") Review Committee dated November 1, 2014, and (d) the General Assembly must include in the BEP funding formula the cost components associated with the rigorous academic standards imposed by the General Assembly.

The Plaintiffs filed a Motion for the Court to certify the case as a class action and include every county school system in the State in the class. That motion was denied. The Defendants filed a Motion to Dismiss for Failure to State a Claim upon which Relief can be Granted. That motion was also denied.

The Defendants believe that they have strong legal and factual arguments and that they should prevail ultimately on the merits. However, there is no guarantee of such a result. The Plaintiffs' Amended Complaint claims "funding shortfalls" ranging from one hundred and thirty-five million dollars (\$135,000,000) to seven hundred million dollars (\$700,000,000). Therefore, if the Plaintiffs were to succeed in their lawsuit, the State could possibly have to increase its funding for education by as much as seven hundred million dollars (\$700,000,000).

Shelby County Bd. Of Ed., v. Haslam, Ramsey, Harwell, McQueen, Rolston, Edwards, Chancey, Roberts, Pearre, Tucker, Hartgrove, Johnson, and Troutt, and Heyburn, (Davidson Co. Chancery Ct.). The State was served with this lawsuit on August 31, 2015. The Shelby County Board of Education brought this suit against the Governor, the Speakers of both Houses, the Commissioner of Education, and the members of the State Board of Education, as well as the Board's Executive Director, all in their official capacities only, alleging that the State has (1) violated the holdings of the Tennessee Supreme Court in three previous education funding cases, as well as the Tennessee Constitution, and (2) violated State education funding statutes. The essential claim of the Complaint is that the State does not adequately fund public education in Tennessee. The Complaint in this case goes beyond the relief sought in the Hamilton County case above, which seeks full funding of the existing BEP funding formula. In this case, Shelby County seeks a declaratory judgment holding that (a) some portions of the BEP program are inadequate and therefore in violation of Article XI, Section 12, of the Tennessee Constitution; thus, the State is failing to provide a free public education, (b) the State educational funding system fails to provide Tennessee students with substantially equal educational opportunities and (c) the General Assembly must appropriate sufficient funds to implement a revised version of the current school funding formula that includes, for example, pre-school education programs.

The Defendants believe that they have strong legal and factual arguments and that they should prevail ultimately on the merits. However, there is no guarantee of such a result. Since the Plaintiff's Complaint includes in its prayer for relief a major revamp and expansion of the existing BEP funding scheme, including a prayer for relief that seeks funding for an entirely new program – pre-school programs – the total relief sought in this case is likely significantly higher than the Hamilton County case, above. However, it is impossible at this time to put an accurate dollar figure on any increase in funding for education that the State would have to make if the Plaintiffs were to prevail in this lawsuit. In addition, it should be noted this case and the Hamilton County case, above, overlap to a significant extent, i.e., they both seek funding changes to the existing system that would affect every other State school system. Consequently, the relief sought in the two cases should not simply be added together to determine the State's potential liability in these matters.

TAX MATTERS

Commercial Paper may be issued either as Tax-Exempt Commercial Paper or as Federally Taxable Commercial Paper. The opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State Funding Board, included herein as Appendix H, addresses certain Federal and State tax matters relating to Commercial Paper. Such opinion was rendered on August 28, 2009, speaks as of its date and is not being reissued. Such opinion made certain assumptions as to future acts by the State and other matters as described therein, including compliance with representations, warranties, covenants and agreements contained in the Commercial Paper Resolution and in certificates, including as to Federal tax matters, executed by authorized officers of the State. Bond Counsel has not undertaken to verify whether any such representations, warranties, covenants and agreements have been complied with since the date such opinion was rendered. Bond Counsel does not express any opinion regarding Federal, state or local tax consequences arising with respect to the Commercial Paper, or the ownership or disposition thereof, or the accrual or receipt of interest thereon, except as stated in such opinion.

Federal Tax Matters

Tax-Exempt Commercial Paper



Opinion of Bond Counsel. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State Funding Board, under existing statutes and court decisions, and assuming compliance with the tax covenant referred to below, the interest on duly issued Tax-Exempt Commercial Paper (i) will not be included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) under the Code, such interest will not be treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, will be includable in the adjusted earnings of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and the State Funding Board in connection with Tax-Exempt Commercial Paper, and Bond Counsel has assumed compliance by the State and the State Funding Board with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on Tax-Exempt Commercial Paper from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to Tax-Exempt Commercial Paper. Bond Counsel rendered its opinion under existing statutes and court decisions as of the date of the opinion, and assumed no obligation to update, revise or supplement its opinion to reflect any action, thereafter taken or not taken, or any facts or circumstances that may have thereafter come to its attention or changes in law or in interpretations thereof that may have hereafter occurred, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter 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 Tax-Exempt Commercial Paper, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of Tax-Exempt Commercial Paper in order that interest on Tax-Exempt Commercial Paper be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of Tax-Exempt Commercial Paper, 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 Tax-Exempt Commercial Paper 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 Tax-Exempt Commercial Paper 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 Tax-Exempt Commercial Paper. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of Tax-Exempt Commercial Paper. 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 Tax-Exempt Commercial Paper.

Prospective owners of Tax-Exempt Commercial Paper 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 Tax-Exempt Commercial Paper 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.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including Tax-Exempt Commercial Paper. 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 Tax-Exempt Commercial Paper 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 excludability of the interest on Tax-Exempt Commercial Paper 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 Tax-Exempt Commercial Paper under federal or state law or otherwise prevent beneficial owners of Tax-Exempt Commercial Paper 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 Tax-Exempt Commercial Paper. For example, budgets proposed by the Obama Administration from time to time have recommended a 28% limitation on certain itemized deductions and other tax benefits, including tax-exempt interest. The net effect of such a proposal, if 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 Tax-Exempt Commercial Paper should consult their own tax advisors regarding the foregoing matters.

Federally Taxable Commercial Paper

Under the Code, interest on Federally Taxable Commercial Paper is included in gross income for federal income tax purposes. However, the opinion of Bond Counsel mentioned above was to the effect that, under existing laws of the State at the time the opinion was issued, duly issued Commercial Paper (both Tax-Exempt Commercial Paper and Federally Taxable Commercial Paper), and the interest thereon, 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 State law.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Federally Taxable Commercial Paper by original purchasers of Federally Taxable Commercial Paper 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 Federally Taxable Commercial Paper will be held as "capital assets"; and (iii) does not discuss all of the United States 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 Federally Taxable Commercial Paper 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 Federally Taxable Commercial Paper in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

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

Characterization as Short-Term Obligations. Federally Taxable Commercial Paper is a "Short-Term Obligation" for federal income tax purposes and, as such, is subject to rules contained in Sections 1281 through 1283 of the Code if the holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of pass-through entities, or if Federally Taxable Commercial Paper 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 and held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and any "acquisition discount" with respect to, Federally Taxable Commercial Paper accrues on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant-yield basis using a constant interest rate and daily compounding. For purposes of the preceding sentence, the term "acquisition discount" means the excess of the stated redemption price of Federally Taxable Commercial Paper at maturity over the holder's tax basis therefor.

A holder of Federally Taxable Commercial Paper 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.

Disposition and Defeasance. Generally upon the sale, exchange, redemption or other disposition (which would include a legal defeasance) of Federally Taxable Commercial Paper, 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 Federally Taxable Commercial Paper.

The State or State Funding Board may cause the deposit of moneys or securities in escrow in such amount and manner as to cause Federally Taxable Commercial Paper to be deemed to be no longer outstanding under the Commercial Paper Resolution (a "defeasance"). (See Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE COMMERCIAL PAPER RESOLUTION" herein). For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on Federally Taxable Commercial Paper subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting. In general, information reporting requirements will apply to non-corporate holders of Federally Taxable Commercial Paper with respect to payments of the principal of, payments of interest on, and the proceeds of the sale of Federally Taxable Commercial Paper before maturity within the United States. Backup withholding may apply to holders of Federally Taxable Commercial Paper 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 United States 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 Federally Taxable Commercial Paper 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 United States 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 Federally Taxable Commercial Paper under state law and could affect the market price or marketability of Federally Taxable Commercial Paper. Prospective purchasers of Federally Taxable Commercial Paper should consult their own tax advisors regarding the foregoing matters.

LEGAL OPINIONS

The validity of Commercial Paper will be approved by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the State Funding Board. For the form of the proposed Bond Counsel opinion, which includes certain assumptions as to future acts, see Appendix H. Certain legal matters in connection with Commercial Paper will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to the State Funding Board. Certain legal matters pertaining to the Standby Purchase Agreement will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to TCRS.

ANNUAL AUDITS; SECONDARY MARKET DISCLOSURE

The Department of Audit of the State, of which the Comptroller of the Treasury is the administrative head, under current State law is required to (i) perform currently a post-audit of all accounts and other financial records of the State government, and of any department, institution, office or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the Comptroller of the Treasury, and (ii) certify to the government-wide statements, fund financial statements, notes to the financial statements and other required supplementary information, covering the condition of the State's finances, as prepared by the Department of Finance and Administration or by the State Treasurer in accordance with generally accepted accounting principles. It is the State's current practice that these audited financial statements be completed within six months after the close of the State's fiscal year (i.e., by December 31). The State has filed its Comprehensive Annual Financial Report, which includes the audited financial statements, for each of the last five fiscal years with the Municipal Securities Rulemaking Board's Electronic Municipal Market (EMMA) system. No other annual financial or operational information is prepared and disseminated on a systematic basis except as may be required by Rule 15c2-12 of the Securities and Exchange Commission with respect to any securities issued by the State and subject to the Rule. The State has issued and currently has outstanding Bonds, which are subject to the Rule, and expects that all annual financial information required to be disclosed pursuant to the continuing disclosure undertaking executed in connection therewith will be included in future Comprehensive Annual Financial Reports filed with the EMMA system. Commercial Paper is exempt from the continuing disclosure requirements of Rule 15c2-12 pursuant to the exemption provided by subsection (d) (1) thereof.

RATINGS

Moody's Investors Service, Inc. has assigned a rating of "P-1" to the Commercial Paper and a rating of "Aaa" to the State's long-term general obligation bonds. Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, has assigned a rating of "A-1+" to the Commercial Paper and a rating of "AA+" to the State's long-term general obligation bonds. Fitch, Inc. does not rate the Commercial Paper but has assigned a rating of "AAA" to the State's long-term general obligation bonds. Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell, or hold Commercial Paper. Explanations of the significance of such ratings may be obtained only from the respective organizations. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own.

There is no assurance that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies if, in the judgment of each such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of Commercial Paper.

AUTHORIZATION OF OFFERING MEMORANDUM

The execution and distribution of this Offering Memorandum have been duly authorized by the State.

The date of this Offering Memorandum is June 9, 2016.

STATE OF TENNESSEE

By: /s/ Justin P. Wilson
*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 General Purpose Financial Statements, for the fiscal year ended June 30, 2015 has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system 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 37243-0273, telephone (615) 747-5370, fax (615) 741-5986. The 2015 CAFR and certain prior year CAFRs are posted on the State's website at <http://www.tennessee.gov/finance/article/fa-accfin-cafr>.

The following reports, each of which are included in the 2015 CAFR and have been posted on the State's website, are incorporated herein by reference:

Auditor's Report

Management's Discussion and Analysis

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

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STATISTICAL AND ECONOMIC DATA

The Comprehensive Annual Financial Report ("CAFR") of the State, including selected statistical and economic data (unaudited), for the fiscal year ended June 30, 2015 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 37243-0273, telephone (615) 747-5370, fax (615) 741-5986. The 2015 CAFR and certain prior year CAFRs are posted on the State's website at <http://www.tennessee.gov/finance/article/fa-accfin-cafr>.

The following statistical data, all of which is included in the 2015 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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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

The Tennessee Consolidated Retirement System ("TCRS") was established in 1972 to administer a retirement program for the public employees of the State. In 1972, the seven existing State retirement systems were closed, and all assets and liabilities of these superseded systems were transferred to the TCRS. TCRS membership consists of state employees, higher education employees, teachers, and local government employees. Local governments have the option to join TCRS and are responsible for the pension liabilities associated with their employees.

The TCRS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015, Pension Trust Funds of The State of Tennessee, is available in its entirety on the Internet at: http://treasury.tn.gov/TCRS_Annual_Reports.html .

The following reports, each of which are included in the 2015 TCRS CAFR and have been posted on the State's website, are incorporated herein by reference:

Introductory Section

Financial Section

- Independent Auditor's Report
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CERTAIN DEFINITIONS

The following is a summary of certain definitions used in the Summary of Certain Provisions of the Commercial Paper Resolution (Appendix E) and in the Summary of Certain Provisions of the Standby Purchase Agreement (Appendix F).

"Available Commitment" means the Commitment, adjusted from time to time as follows: (a) downward by the principal amount of any Purchased Commercial Paper, other than Rollover Purchased Commercial Paper, issued; (b) upward by the principal amount of any Purchased Commercial Paper (i) the principal of which has been paid to the Standby Purchaser pursuant to the Standby Purchase Agreement from the proceeds of Rollover Commercial Paper, other than Purchased Commercial Paper the principal of which is paid from proceeds of Rollover Purchased Commercial Paper, and the interest on which has been paid to the Standby Purchaser by the State from other available moneys, or (ii) both the principal of and interest on which has been paid to the Standby Purchaser by the State from other available moneys; and (c) downward to zero on the Expiration Date.

"Bonds" means general obligation bonds of the State authorized as provided by law.

"Book-Entry Commercial Paper" means Commercial Paper issued in book-entry form through the Depository pursuant to the Commercial Paper Resolution.

"Business Day" means any day other than (i) a Saturday, (ii) a Sunday, (iii) a State legal holiday, (iv) a day on which banking institutions in Nashville, Tennessee, or The City of New York, New York, or the city in which the Office of the Issuing and Paying Agent is located, or the city in which the principal office of the Dealer is located, are authorized or obligated by law or executive order to be closed, (v) a day on which the New York Stock Exchange is not open for trading, or (vi) with respect to the Book-Entry Commercial Paper, a day on which the Depository is not scheduled to be open for money market instrument settlement services.

"Commercial Paper Fund" means the special purpose trust fund established pursuant to the Commercial Paper Resolution and to be held by the Issuing and Paying Agent for the benefit of the Holders from time to time of Commercial Paper and the Liquidity Provider, for the deposit of proceeds of Commercial Paper to be used to pay the principal of Outstanding Commercial Paper and outstanding Reimbursement Obligations and moneys to pay the interest on Outstanding Commercial Paper and outstanding Reimbursement Obligations, and the payment therefrom of principal of and interest on Outstanding Commercial Paper and outstanding Reimbursement Obligations.

"Depository" means (i) DTC, (ii) any other person appointed by the State Funding Board to serve as securities depository for the Master Note, and (iii) in each such case, its successors and assigns.

"DTC" means the Depository Trust Company, New York, New York, and its successors and assigns.

"Draw" means any drawing by the Issuing and Paying Agent on a Liquidity Facility under a Liquidity Agreement; "Drawn" means at any time any Draw theretofore made; and "Drawable" means at any time any Draw that thereafter may be made, in each such case including a demand upon a Liquidity Provider pursuant to the Standby Purchase Agreement for the purchase of Commercial Paper to be issued.

"Event of Default" has the meaning described in Appendix F - "Summary of Certain Provisions of the Standby Purchase Agreement - Events of Default; Remedies".

"Expiration Date" has the meaning described in Appendix F - "Summary of Certain Provisions of the Standby Purchase Agreement - Termination of Commitment".

"General Assembly" means the General Assembly of the State.

"Holder" means any person who is in possession of any Commercial Paper drawn, issued or endorsed to such person or to the order of such person or to bearer or in blank; provided, however, that "Holder", when used with reference to Book-Entry Commercial Paper evidenced by a Master Note, and such Master Note, shall mean the registered owner of such Master Note as shown on the books of the Issuing and Paying Agent kept pursuant to the Commercial Paper Resolution.

"Liquidity Agreement" means an agreement with a Liquidity Provider to provide a Liquidity Facility pursuant to the Commercial Paper Resolution, including but not limited to the Standby Purchase Agreement, as the same may be amended, supplemented, or replaced in accordance therewith and with the Commercial Paper Resolution.

"Liquidity Facility" means the Standby Purchase Agreement or any other liquidity or credit facility provided with respect to the Commercial Paper in lieu of the Standby Purchase Agreement or other Liquidity Facility.

"Liquidity Provider" means the provider or, collectively, providers of a Liquidity Facility and shall include, in the case of the Standby Purchase Agreement, any standby purchaser or purchasers thereunder.

"Master Note" means a master note issued to the Depository pursuant to the Commercial Paper Resolution.

"Maximum Rate" means, as of any time, the lesser of (i) with respect to any Commercial Paper, except as clause (ii) may apply, the rate of 12% per annum calculated on the basis of actual days elapsed and a 365 or 366 day year, (ii) with respect to any Liquidity Facility obligation, including any Commercial Paper held by the Liquidity Provider, the maximum interest rate specified, and calculated on the basis specified, in the related Liquidity Agreement, if any, and (iii) in any such case, the maximum rate of interest at the time permitted by Section 47-14-103, Tennessee Code Annotated, or other applicable State law.

"Moody's" means Moody's Investors Service, Inc., or any successor, then maintaining a rating on the Commercial Paper at the request of the State.

"Original Commercial Paper" means Commercial Paper initially issued for and allocable, or allocated, to a purpose as provided by the Commercial Paper Resolution, but shall exclude Rollover Commercial Paper.

"Outstanding" means, when used as of any particular time with reference to Commercial Paper, all Commercial Paper theretofore or thereupon issued pursuant to this Resolution except (i) Commercial Paper theretofore canceled by the Issuing and Paying Agent or surrendered to the Issuing and Paying Agent for cancellation; (ii) Commercial Paper with respect to which, and only to the extent, all liability of the State shall have been discharged in accordance with the Commercial Paper Resolution, see Appendix E – "Summary of Certain Provisions of the Commercial Paper Resolution – Commercial Paper Deemed Paid; Discharge of Resolution"; and (iii) Commercial Paper in lieu of, or in substitution for, which other Commercial Paper has been or is then being issued by the Issuing and Paying Agent pursuant to the terms of the Commercial Paper Resolution.

"Purchased Commercial Paper" means Commercial Paper purchased by the Standby Purchaser pursuant to the Standby Purchase Agreement and shall include Rollover Purchased Commercial Paper.

"Rating Agency" means either or both of Moody's and Standard & Poor's, and/or such other securities rating agencies providing a rating on the Commercial Paper, at the request of the State.

"Reimbursement Obligation" means any obligation of the State to make payments to a Liquidity Provider in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Commercial Paper) any Draw or other advance, loan or other payment made by such provider for the purpose of paying the principal of or interest on Commercial Paper. Reimbursement Obligations shall not include any payments of any fees, expenses, or other similar obligations to any such provider. Reimbursement Obligations may be evidenced by a promissory note or notes issued pursuant to and in accordance with the Liquidity Facility and having the terms and characteristics contained therein.

"Related Documents" means the Standby Purchase Agreement, the Commercial Paper Resolution, the Issuing and Paying Agency Agreement, the Dealer Agreement and the Commercial Paper.

"Rollover Commercial Paper" means (i) for purposes of the Commercial Paper Resolution, Commercial Paper issued for the sole purpose of refinancing directly or indirectly, through a chain of refinancing, Original Commercial Paper and (ii) for purposes of the Standby Purchase Agreement, Commercial Paper (other than Purchased Commercial Paper) issued solely to pay the principal of other Commercial Paper (including Purchased Commercial Paper) or Rollover Commercial Paper (including Rollover Purchased Commercial Paper).

"Rollover Purchased Commercial Paper" means Purchased Commercial Paper issued solely to pay the principal of other Purchased Commercial Paper or Rollover Purchased Commercial Paper.

"Series", when used with reference to Commercial Paper, means either or both (as the context requires) of the two Series of Commercial Paper authorized by the Commercial Paper Resolution, to wit: the General Obligation Commercial Paper, Series A (Tax-Exempt) and the General Obligation Commercial Paper, Series B (Federally Taxable).

"Special Event of Default" has the meaning described in Appendix F - "Summary of Certain Provisions of the Standby Purchase Agreement - Special Events of Default; Remedies".

"Standard & Poor's" means Standard and Poor's Ratings Services, A Division of The McGraw-Hill Companies, or any successor, then maintaining a rating on the Commercial Paper at the request of the State.

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**SUMMARY OF CERTAIN PROVISIONS
OF THE COMMERCIAL PAPER RESOLUTION**

The following is a summary of certain provisions of the Commercial Paper Resolution. A summary of certain definitions used in this Appendix is included in Appendix D; others are included elsewhere in this Offering Memorandum.

Conditions to Issuance of Commercial Paper

At the time of the issuance of Commercial Paper, and thereafter from time to time, if necessary, prior to the allocation described below, (i) an authorized officer shall identify purposes for which the General Assembly has authorized to be issued both Bonds and general obligation notes in anticipation of the issuance of such Bonds, and to which such Commercial Paper properly may be allocated, (ii) the State Funding Board shall have authorized the issuance of such Bonds, and (iii) an authorized officer shall determine that:

(A) the aggregate of (1) the principal amount of Bond anticipation notes proposed to be issued against such authorizations as Commercial Paper for such purposes, plus (2) the principal amount of such Bonds theretofore issued against such authorizations for such purposes, plus (3) the principal amount of Bond anticipation notes theretofore issued against such authorizations for such purposes at the time outstanding, plus (4) the principal amount of Bond anticipation notes theretofore issued against such authorizations for such purposes and retired other than from proceeds of Bonds, Commercial Paper or other Bond anticipation notes, minus (5), in the case of Commercial Paper issued to provide for the payment of the principal of Outstanding Notes, such principal amount of Outstanding Notes, does not exceed the maximum principal amount of such Bonds so authorized to be issued for such purposes, taking into account cancellations of authorizations other than those relating to the payment of Bond anticipation notes as described in clause (4) above,

(B) the General Assembly has appropriated the proceeds of such Bond anticipation notes, at least in the aggregate amount of such Commercial Paper and unspent proceeds of Bond anticipation notes theretofore issued against the same authorization,

(C) no such purpose is for current operations of State services or programs,

(D) the General Assembly has appropriated the first year of debt service for all such authorized but unissued Bonds, and by such or another appropriation of at least the interest on all such Bond anticipation notes whether or not issued, and

(E) such Commercial Paper, taking into account all Commercial Paper or other obligations which form a series of issues the principal of which has been paid with the proceeds thereof and which have been issued for the same purpose, will not mature later than the reasonably expected useful life of each facility financed thereby or the date required by State law imposing amortization requirements on Bond anticipation notes,

so that at all times all Commercial Paper may be allocated to authorized purposes and other conditions and limitations may be satisfied with respect thereto as aforesaid.

In lieu of or subsequent to such initial identifications and determinations, Commercial Paper proceeds shall be allocated to purposes that shall meet, and such Commercial Paper and the purposes as so allocated shall meet, the requirements described above (in the case of clause (1) of subparagraph (A) above, with reference to Commercial Paper issued). Each such allocation to such a purpose shall be made no later than the expenditure of such Commercial Paper proceeds for such purpose. Such expenditures and allocations shall be made no later than eighteen months after the date of issuance of the respective Commercial Paper, and shall be evidenced by a writing filed with records of the State Funding Board.

Notwithstanding the foregoing, each identification, determination and allocation relating to particular Original Commercial Paper and related Rollover Commercial Paper shall be made (1) only to a purpose for which both Bonds and general obligation notes in anticipation of the issuance of such Bonds have been authorized by the General Assembly, and which authorization is effective, prior to the date of issuance of such Original Commercial Paper and (2) only if such Bonds have been authorized by the State Funding Board, and which authorization is effective, prior to the date of issuance of such Original Commercial Paper.

Verification by Issuing and Paying Agent

Prior to the issuance by the Issuing and Paying Agent of any Commercial Paper, the Issuing and Paying Agent shall independently verify whether the following conditions and limitations are complied with:

- (i) The principal amount of Commercial Paper Outstanding at any time shall not exceed \$350,000,000.
- (ii) If and for so long as TCRS is the Standby Purchaser, the principal amount of Commercial Paper maturing on any day shall not exceed \$100,000,000 or such greater principal amount as it may agree to.
- (iii) Commercial Paper shall mature on a Business Day not later than 270 days from its date of issuance and in no event later than the sixth Business Day prior to the stated Expiration Date without regard to any early termination.
- (iv) Commercial Paper shall be sold at par.

Procedures for Draws for Advances and Demands for Payment by the State

Draws for Advances. Not later than the time specified in the Liquidity Agreement for the submission of demands for Draws on the Liquidity Facility on the same day upon which any principal of and interest on Outstanding Commercial Paper is due and payable, the Issuing and Paying Agent shall submit a demand for a Draw on the Liquidity Facility in the manner provided in the Liquidity Agreement in an amount equal to the principal of any Outstanding Commercial Paper due and payable on such date to the extent the proceeds of Commercial Paper to be issued for such purpose, or other amounts deposited in the Commercial Paper Fund for the payment thereof, are insufficient and to the extent the Liquidity Facility is available therefore. In the case of a Liquidity Agreement constituting a Standby Purchase Agreement, such Draws may constitute demands upon the Liquidity Provider for the purchase of Commercial Paper to be issued. The Issuing and Paying Agent shall deposit the proceeds of any such Draw to the Commercial Paper Fund, and shall apply such proceeds to the payment of the principal of Commercial Paper becoming due and payable on the date of such Draw.

Demand for Payment by the State. On the same day upon which any principal of and interest on Outstanding Commercial Paper of any Series is due and payable, the Issuing and Paying Agent shall submit a demand for payment to the State in an amount equal to (i) the interest on all Outstanding Commercial Paper of such Series due and payable on such day and (ii) the principal of all Outstanding Commercial Paper of such Series due and payable on such day to the extent (A) the amount required to pay such principal is in excess of the proceeds of Commercial Paper of such Series available in the Commercial Paper Fund to make such payment and any other moneys deposited therein for the payment thereof, and (B) the amount required to pay such principal is in excess of the proceeds of Draws available for such purpose. Such demand shall be made upon the State, and the State shall make or cause to be made such payment, by such time as the State and the Issuing and Paying Agent agree from time to time will permit the Holders of maturing Commercial Paper to be paid the principal thereof and interest thereon as and when the same become due and payable. The Issuing and Paying Agent shall deposit all such payments made to it for the account of the State into the Commercial Paper Fund, and shall apply all such amounts to the payment of the principal of and interest on Commercial Paper becoming due and payable on the date of such demand.

The State may issue or, if necessary for the payment of the principal of Outstanding Commercial Paper, shall use its best efforts to issue Bonds, notes or other evidences of indebtedness and deposit the proceeds thereof into the Commercial Paper Fund in amounts sufficient, together with other available moneys, to pay the principal of all Outstanding Commercial Paper.

The Issuing and Paying Agent, as agent for the Holders from time to time of Commercial Paper and the Liquidity Provider, shall:

(i) (A) with respect to the Commercial Paper of each Series (except Commercial Paper required to be purchased by the Liquidity Provider pursuant to the Standby Purchase Agreement as contemplated by the Commercial Paper Resolution), deposit into the Commercial Paper Fund the proceeds of sale of all Commercial Paper of such Series issued on any day, other than for the purpose of paying costs of the public purposes for which Commercial Paper has been issued or the principal of Reimbursement Obligations related to such Series, as required by the Commercial Paper Resolution, and (B) apply such proceeds to the payment of the principal of Outstanding Commercial Paper of such Series becoming due and payable on such day;

(ii) to the extent such proceeds on any day, as of the time specified in the Liquidity Agreement for the submission of demands for Draws on the Liquidity Facility (including, in the case of the Standby Purchase Agreement, demands for the purchase of Commercial Paper), are insufficient to pay the principal of all Outstanding Commercial Paper becoming due and payable on such day, (A) (1) first, demand a Draw on the Liquidity Facility, in the manner provided therein, in the full amount of such insufficiency (including, in the case of the Standby Purchase Agreement, a demand for purchase of an aggregate principal amount of Commercial Paper equal to such insufficiency to the extent the Liquidity Facility is available therefor, and (2) second, to the extent such insufficiency has not been satisfied by such Draw, make demand upon the State in the full amount of the balance of such insufficiency, (B) deposit the proceeds of such Draw (including, in the case of the Standby Purchase Agreement, the proceeds of the Commercial Paper purchased by the Liquidity Provider) and any such payment by the State into the Commercial Paper Fund, and (C) apply such proceeds and payment to the payment of the principal of Outstanding Commercial Paper becoming due and payable on such day;

(iii) with respect to the Commercial Paper of each Series, to the extent such proceeds on any day are in excess of the amount required to pay the principal of all Outstanding Commercial Paper of such Series becoming due and payable on such day, (A) first, request confirmation from the Liquidity Provider of the outstanding principal of Reimbursement Obligations related to such Series and transfer the balance of such excess, to the extent of such outstanding principal, to or at the direction of the Liquidity Provider as the Liquidity Provider shall specify from time to time in written instructions filed with the Issuing and Paying Agent for the purpose of paying such principal, and (B) second, transfer the balance of such excess to or at the direction of the State as the State shall specify from time to time in written instructions filed with the Issuing and Paying Agent;

(iv) (A) deposit into the Commercial Paper Fund all payments made by the State to the Issuing and Paying Agent for the purpose of paying the interest on Outstanding Commercial Paper, and (B) apply such deposits to the payment of such interest;

(v) (A) deposit into the Commercial Paper Fund all proceeds of Bonds, notes or other evidences of indebtedness transferred to the Issuing and Paying Agent by or on behalf of the State, and (B) apply such deposits to the payment of the principal of Outstanding Commercial Paper, or otherwise, as an authorized officer shall specify from time to time in written instructions filed with the Issuing and Paying Agent; and

(vi) apply the moneys on deposit in the Commercial Paper Fund solely to the payment of the principal of and interest on the Commercial Paper and the principal of Reimbursement Obligations, as aforesaid, as the same mature and become due and payable, or otherwise as provided above.

Amounts on deposit in the Commercial Paper Fund as proceeds of Commercial Paper to be used to pay the principal of other Commercial Paper as required by paragraph (i) above and the principal of Reimbursement Obligations as required by paragraph (iii) above shall not be invested prior to their application for such purposes. Other amounts on deposit in the Commercial Paper Fund may be invested at the direction of an Authorized Officer prior to their application for authorized purposes.

Certain Covenants

The State will not issue, or authorize or instruct the Issuing and Paying Agent to issue, any Commercial Paper if, upon the issuance of such Commercial Paper, any of the foregoing limitations would be breached or the State's covenants to maintain a sufficient drawable amount under the Liquidity Facility or to preserve tax-exemption of Tax-Exempt Commercial Paper, or the following paragraph, would not be complied with.

The State will not issue, or authorize or instruct the Issuing and Paying Agent to issue, Commercial Paper (i) to bear interest in excess of the Maximum Rate and (ii) for any purpose unless and until authorized by a Public Act of the General Assembly and other applicable State law, rules or regulations, or if it would result in the violation by the State of any order of any court, governmental agency or regulatory body.

Reservation of Right to Issue Bonds and Other Debt

The State expressly reserves the right hereafter to issue Bonds, notes or other evidences of indebtedness in addition to the Commercial Paper and Reimbursement Obligations, constituting a general obligation of the State on a parity therewith, and additionally secured as may be required by the Act or other provisions of law or as determined by the State Funding Board, when and as the State Funding Board shall determine and authorize.

Maintenance of Liquidity Facility



The State agrees and covenants that at all times it will maintain a Drawable amount under a Liquidity Facility pursuant to the related Liquidity Agreement which will be available to pay the principal of Commercial Paper in an amount at least equal to the principal amount of all Outstanding Commercial Paper, subject to provisions of the Liquidity Agreement that may limit the availability of the Liquidity Facility.

The State covenants that it will not substitute another credit or liquidity support agreement for the Liquidity Agreement then in effect, nor will it permit or allow any Liquidity Provider to assign all or any part of its obligation to honor Draws under the Liquidity Facility to the extent such assignment is subject to the approval by or consent of the State, unless, in any such case, prior to such substitution or assignment, as the case may be, the State shall have received (i) written evidence from each Rating Agency to the effect that such substitution or assignment, as the case may be, will not, by itself, result in a reduction, withdrawal or suspension of such Rating Agency's ratings of the Commercial Paper from those which then prevail and (ii) an opinion of Bond Counsel to the effect that such substitution or assignment, as the case may be, will not impair the exclusion of interest on the Tax-Exempt Commercial Paper from gross income for federal income tax purposes; provided, however, that the foregoing provisions shall not apply to any renewal or extension of any Liquidity Facility then in effect or to any participation permitted by a Liquidity Facility.

The State will give notice to the Issuing and Paying Agent, and will give or cause the Issuing and Paying Agent to give notice to each Holder, of any substitution or assignment to which the preceding paragraph applies. Such notice will be sent by first class mail at least five Business Days prior to the effectiveness of any such substitution, and within two Business Days after actual knowledge to the State of (but not necessarily earlier than five Business Days prior to) the effectiveness of any such assignment.

Amendments

The State Funding Board, from time to time and at any time, (i) without the consent or concurrence of any Holder of any Commercial Paper, may adopt a resolution for the purpose of providing for the issuance of any Bonds, notes, or other evidences of indebtedness as permitted under the Commercial Paper Resolution, and (ii) without the consent or concurrence of any Holder of any Commercial Paper, may adopt an amendatory or supplemental resolution if the provisions of such resolution shall not materially adversely affect the rights of the Holders of the Commercial Paper then Outstanding, for any one or more of the following purposes:

1. to make any changes or corrections in the Commercial Paper Resolution as to which the State Funding Board shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Commercial Paper Resolution, or to insert in the Commercial Paper Resolution such provisions clarifying matters or questions arising under the Commercial Paper Resolution as are necessary or desirable;

2. to add additional covenants and agreements of the State for the purpose of further securing the payment of the Commercial Paper;
3. to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Commercial Paper Resolution;
4. to grant to or confer upon the Holders of the Commercial Paper any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;
5. to comply with any request by or requirement of any rating agency which is necessary, or which the State Funding Board reasonably believes is necessary, to prevent a downward revision by such rating agency in the rating of Commercial Paper;
6. to provide for the issuance, transfer, exchange, registration, discharge from registration and replacement of Commercial Paper other than Book-Entry Commercial Paper; and
7. to increase the maximum aggregate principal amount of Commercial Paper that may be Outstanding at any time; provided, however, that prior to the effectiveness thereof (A) the State shall have received written evidence from each Rating Agency to the effect that such increase will not, by itself, result in a reduction, withdrawal or suspension of such Rating Agency's rating of the Commercial Paper which then prevail and (B) the requirements of the Commercial Paper Resolution summarized above in the first paragraph under "Maintenance of Liquidity Facility" are complied with,

or (iii) may adopt an amendatory or supplemental resolution to modify any of the provisions of the Commercial Paper Resolution in any other respect if such modification shall be effective only with respect to Commercial Paper issued subsequent to the effectiveness of such resolution or modification, in which case any Commercial Paper instrument (except any Master Note) issued subsequent to the effectiveness of any such modification shall contain a specific reference to, and the State Funding Board shall give written notice to the Depository of Book-Entry Commercial Paper of, the modifications contained in such resolution; provided, however, that nothing contained in the Commercial Paper Resolution shall permit or be construed to permit the amendment of the terms and conditions of the Commercial Paper Resolution or of the Commercial Paper so as to:

- a. make any change in the maturity of any Outstanding Commercial Paper;
- b. reduce the rate of interest borne by any Outstanding Commercial Paper;
- c. reduce the amount of the principal payable on any Outstanding Commercial Paper;
- d. modify the terms of payment of principal of or interest on any Outstanding Commercial Paper, or impose any conditions with respect to such payment;
- e. affect the rights of the Holders of less than all Outstanding Commercial Paper; or
- f. reduce or restrict the pledges made in the Commercial Paper Resolution for the payment and security of Outstanding Commercial Paper, as described under "Sources of Payment and Security".

Nothing in the Commercial Paper Resolution shall be deemed to restrict any amendment, modification or supplement to the Liquidity Agreement or the Issuing and Paying Agency Agreement or the Dealer Agreement or the establishment (or amendment, modification or supplementing) of any limitation on, or procedure for, the issuance of Commercial Paper which is effective only with respect to Commercial Paper issued subsequent to the effectiveness of such amendment, modification, supplement or limitation.

Commercial Paper Deemed Paid; Discharge of Resolution

Commercial Paper will be deemed paid for all purposes of the Commercial Paper Resolution when (a) payment of the principal of and interest on such Commercial Paper to the due date of such principal and interest (whether at maturity or otherwise) either (1) has been made in accordance with the terms of such Commercial Paper or (2) has been provided for by depositing with the Issuing and Paying Agent (A) moneys sufficient to make such payment and/or (B) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (for purposes of this paragraph, "Government Obligations") maturing as

to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all compensation and expenses of the Issuing and Paying Agent pertaining to the Commercial Paper in respect of which such deposit is made have been paid or provided for to the satisfaction of the Issuing and Paying Agent. When Commercial Paper is deemed paid, it will no longer be secured by or entitled to the benefits of the Commercial Paper Resolution or be an obligation of the State, except for payment from such moneys or Government Obligations, except that it may be transferred, exchanged, registered, discharged from registration or replaced as provided in the Commercial Paper Resolution.

Unclaimed Moneys; Repayment to State

The Issuing and Paying Agent will pay to the State promptly upon its request any excess moneys or securities held by the Issuing and Paying Agent as described in the preceding section, and any moneys held by the Issuing and Paying Agent under any provision of Commercial Paper Resolution for the payment of principal or interest on Commercial Paper that remains unclaimed for one (1) year or such other shorter or longer period, or to such other person as may at the time be prescribed by State law with respect to unclaimed property.

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SUMMARY OF CERTAIN PROVISIONS OF THE STANDBY PURCHASE AGREEMENT

The following is a summary of certain provisions of the Standby Purchase Agreement as amended by the First Amendment to Standby Commercial Paper Purchase Agreement. A summary of certain definitions used in this Appendix is included in Appendix D; others are included elsewhere in this Offering Memorandum.

Purchase of Commercial Paper

The Standby Purchaser agrees to purchase from time to time on any Business Day prior to the Expiration Date an aggregate principal amount of Commercial Paper not to exceed the then applicable Available Commitment.

In addition to any terms and conditions contained in the Commercial Paper Resolution for issuance of Commercial Paper, (i) Commercial Paper shall not be issued to mature on any day in an aggregate principal amount in excess of \$100,000,000 or such greater principal amount as may be agreed to by the Standby Purchaser, (ii) all Commercial Paper (other than Rollover Purchased Commercial Paper) shall mature on a Business Day that will permit Rollover Purchased Commercial Paper to be issued and mature on a Business Day that is not later than one Business Day prior to the stated Expiration Date without regard to any early termination, consistent with the other requirements of the Standby Purchase Agreement, and (iii) all Commercial Paper shall be sold and issued at par.

All Purchased Commercial Paper shall (i) be purchased at a price equal to the principal amount thereof, (ii) mature on the first Business Day after the date of its issuance which does not cause the total principal amount of all Commercial Paper outstanding (including such Purchased Commercial Paper) and maturing on such day to exceed \$100,000,000 or such greater principal amount as may be agreed to by the Standby Purchaser, and (iii) bear interest at the Standby Purchaser Rate.

If and whenever the Standby Purchaser has purchased Commercial Paper, the State shall use its best efforts to cause to be issued to persons other than the Standby Purchaser, on the date such Purchased Commercial Paper matures, Rollover Commercial Paper in the same aggregate principal amount, and to cause the proceeds of such Rollover Commercial Paper to be used to pay the principal of Purchased Commercial Paper. Immediately upon such payment of the principal of such Purchased Commercial Paper and upon payment by the State of the interest thereon from other available moneys, or upon the payment by the State of both such principal and interest from other available moneys, the Available Commitment shall be reinstated by an amount equal to the principal amount of the Purchased Commercial Paper the principal of and interest on which has been paid.

Termination of Commitment

The Commitment shall terminate upon the earlier to occur of the following (the "Expiration Date"):

- (1) the close of Business of the Standby Purchaser on July 1, 2021;
- (2) immediately upon the occurrence of a Special Event of Default, in which case the Standby Purchaser shall immediately deliver No-Issuance Instructions to the State, the Issuing and Paying Agent and the Dealer;
- (3) by either party upon giving to the other party notice of termination of at least the longer of (x) ninety (90) calendar days or (y) the remaining number of calendar days to maturity of any then-outstanding Commercial Paper plus one (1) calendar day, in which case the Standby Purchaser shall, immediately upon giving such notice, deliver No-Issuance Instructions to the State, the Issuing and Paying Agent and the Dealer; and
- (4) upon the payment of the principal amount of all Commercial Paper outstanding under the Commercial Paper Resolution and subject to the Standby Purchase Agreement, together with receipt by the Standby Purchaser of written notice from an authorized officer that such Commercial Paper will not be reissued, that no additional Commercial Paper will be issued and that the Standby Purchase Agreement shall be terminated.

Upon receipt of such No-Issuance Instructions, the State shall cease issuing Commercial Paper.

Conditions to Each Purchase by the Standby Purchaser

The obligation of the Standby Purchaser to purchase Commercial Paper on any Business Date is subject to satisfaction of the following conditions:

- (a) delivery to the Standby Purchaser of notice that it is required to purchase Commercial Paper;
- and
- (b) no Special Event of Default shall have occurred and be continuing.

Each request by the State for the issuance of Commercial Paper shall be deemed to be a representation and warranty by the State on the date thereof that no Special Event of Default has occurred and is continuing.

Events of Default; Remedies

The following constitute "Events of Default" under the Standby Purchase Agreement:

- (1) Default in the payment when due of interest on any Commercial Paper and such default continues for two (2) Business Days; or
- (2) Default in the payment of principal of any Commercial Paper when due, at maturity, upon acceleration or redemption, or otherwise; or
- (3) State fails to perform any of its agreements in any Related Document (except a failure that results in an Event of Default under paragraph (1) or (2) above), the performance of which is material to the Holders of the Commercial Paper, and the failure continues after the Holders of at least 25% in principal amount of the outstanding Commercial Paper give the State Funding Board, the Issuing and Paying Agent, the Dealer and the Standby Purchaser a notice specifying the default, demanding that it be remedied and stating that the notice is a "Notice of Default", and the State does not cure the default within sixty (60) days after receipt of the notice; or
- (4) Default in the payment of principal of or interest on any Bond after the same shall become due, whether at maturity or upon call for redemption, and such default continues for 30 days; or
- (5) Default in the payment of any commitment fees when due pursuant to the Standby Purchase Agreement, and the continuance of such default unremedied for five (5) Business Days after notice given by the Standby Purchaser to the State; or
- (6) Any representation or warranty made by the State in the Standby Purchase Agreement, any Commercial Paper, the Commercial Paper Resolution or any other document or certificate furnished pursuant thereto shall have been incorrect in any material respect as of the date made; or
- (7) The State shall default in the due performance or observance of any term, covenant or agreement contained in specified sections of the Standby Purchase Agreement consisting of covenants relating to compliance with laws, etc., use of Commercial Paper proceeds, accuracy of information furnished to the Standby Purchaser, preservation of existence of the State Funding Board, and the tax-exempt status of tax-exempt Commercial Paper; or
- (8) The State shall default in the due performance or observance of any term, covenant and agreement contained in other specified sections of the Standby Purchase Agreement consisting of covenants (other than those covered by paragraph (7) above) and such default, if capable of being remedied, shall remain unremedied for 20 days after written notice thereof shall have been given to the State by the Standby Purchaser; provided, that so long as the State shall be proceeding with due diligence to remedy any default in the due performance or observance of such covenants which, if begun and prosecuted with due diligence, cannot be completed within a period of 20 days, then such 20 day period shall be extended to the extent as shall be necessary to enable the State to begin and complete the remedying of such default through the exercise of due diligence; provided further, that in no event shall such period be extended by more than 60 days; or
- (9) Any material provision of the Standby Purchase Agreement or any other Related Document

shall at any time or for any reason cease to be valid and binding and enforceable in accordance with its terms, which binding effect and enforceability (but not validity) may be limited by State law or shall be finally declared to be null and void by any court or governmental authority or agency having jurisdiction in a judicial or administrative proceeding; or a default, other than as set forth above, shall occur under the Related Documents; or

(10) Except as described above, default by the State in the performance of any material provision of the Standby Purchase Agreement, and the continuance of such default unremedied for thirty (30) days after the State had notice thereof; or

(11) The State takes any action or fails to take any action affecting its ability or willingness to pay its debts and such action or inaction results in a reduction of the State's long-term general obligation bond rating below A (without regard to any gradation within such rating category) by both Moody's and Standard & Poor's; or

(12) Both Moody's and Standard & Poor's shall have assigned the Commercial Paper a rating below P-1 and A-1+, respectively;

provided, however, that with respect to the Events of Default specified above, the Standby Purchaser shall have given written notice (except for the State's failure to perform under a covenant in the Standby Purchase Agreement to provide notice to the Standby Purchaser of defaults actually known to the State) to the State, the Issuing and Paying Agent and the Dealer, that the Standby Purchaser declares the same to be an Event of Default under the Standby Purchase Agreement.

If any Event of Default shall have occurred and be continuing, the Standby Purchaser may, at the same or different times, so long as such Event of Default shall not have been remedied to the satisfaction of the Standby Purchaser, take one or more of the following actions: (i) deliver to the State, the Issuing and Paying Agent and the Dealer a notice ("No-Issuance Instructions"), upon receipt of which the State shall cease issuing Commercial Paper as described below; (ii) by notice to the State, declare all obligations due under the Standby Purchase Agreement to be immediately due and payable; and (iii) proceed to enforce all other remedies available to it under the Standby Purchase Agreement, the Related Documents and applicable law.

Upon receipt of No-Issuance Instructions, the State shall cease issuing Commercial Paper unless and until such No-Issuance Instructions are rescinded. Any such notice received after 11:30 a.m., New York City time, shall be deemed to have been received on the next Business Day. Prior to the occurrence of a Special Event of Default and termination of the Standby Purchaser's obligation to purchase Commercial Paper, a No-Issuance Instruction shall not affect the obligation of the Standby Purchaser to purchase Commercial Paper issued prior to the receipt by the State of such No-Issuance Instruction. Any No-Issuance Instructions given pursuant to this Section shall be revoked immediately upon notice of waiver or non-continuance of each and every Event of Default giving rise to such No-Issuance Instructions, by notice in writing of the Standby Purchaser delivered to the State, the Dealer and the Issuing and Paying Agent.

Special Events of Default; Remedies

The following shall constitute "Special Events of Default" under the Standby Note Purchase Agreement.

(1) The State shall fail to pay, or cause to be paid, when due, any amount due and owing on the principal of (provided the Standby Purchaser is not required to first make payment of such principal pursuant to this Agreement and other Related Documents) or interest on any Commercial Paper; or

(2) The issuance of any Commercial Paper shall result in a violation by the State of any law, rule or regulation, or any order of any court, governmental agency or regulatory body, or any indenture or loan or credit agreement (including the Standby Purchase Agreement), or any other agreement or instrument, applicable to the State or to such issuance, pursuant to a final administrative determination or judicial decision from which there shall not exist any further right of appeal or against which a timely appeal shall not have been filed by the State; or

(3) The validity, or enforceability to the extent permitted by State law, of the Standby Purchase Agreement, the Commercial Paper, or the Commercial Paper Resolution shall be contested (i) by the State; or the State shall deny that it has any or further liability or obligation under the Standby Purchase Agreement,

the Commercial Paper, or the Commercial Paper Resolution; or

(4) Both Moody's and Standard & Poor's shall have assigned the Commercial Paper a rating below P-3 and A-3+, respectively; or

(5) The State imposes a debt moratorium, debt restructuring, debt adjustment or comparable restriction on repayment when due and payable of the principal of or interest on any State Obligations, or the State shall take any other action that takes advantage of or uses the powers of a sovereign entity to refuse to pay its debts in accordance with the terms thereof, or to comply with any of its lawful obligations or commitments under the Commercial Paper, or any other general obligation notes or bonds issued by the State; or

(6) Either the State or the State Funding Board (A) applies for or consents to the appointment of, or the taking or possession by, a receiver, custodian, trustee, or liquidator of itself or of all or of a substantial part of its property or assets, (B) admits in writing its inability, or is generally unable, to pay its debts as they become due, (C) makes a general assignment for the benefit of creditors, (D) files a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, winding-up or composition or adjustment of debts, or (E) takes any action for the purpose of effecting any of the acts set forth in clauses (1) through (5) above.

In the event of any Special Event of Default then (A) automatically the Commitment and the obligations of the Standby Purchaser under the Standby Purchase Agreement shall immediately terminate, and the Standby Purchaser shall immediately deliver No-Issuance Instructions to the State, the Issuing and Paying Agent and the Dealer, upon receipt of which the State shall cease issuing Commercial Paper, and (B) the Standby Purchaser may pursue any other rights or remedies under the Standby Purchase Agreement, applicable law or otherwise.

Amendments and Waivers

Any provision of the Standby Purchase Agreement may be amended or waived if, but only if such amendment or waiver is in writing and is signed by the State and the Standby Purchaser, provided that no waiver or amendment shall be effective as to any Commercial Paper unless (i) the State and the Standby Purchaser agree that the same does not materially adversely affect the rights of the Holders of such Commercial Paper or (ii) such Holder shall have consented in writing to such waiver or amendment or (iii) such waiver or amendment is effective with respect to Commercial Paper issued subsequent to the effectiveness of such waiver or amendment.

BOOK-ENTRY ONLY SYSTEM

All Commercial Paper shall be issued in book-entry-only form through The Depository Trust Company, New York, New York ("DTC"). On or prior to the initial issuance of Commercial Paper, the Issuing and Paying Agent shall cause to be completed (to the extent appropriate) and authenticated one or more fully registered master notes (the "Master Notes") registered in the name of Cede & Co., as nominee of The Depository Trust Company. The Master Notes evidence the obligation of the State to make payments of principal of and interest on all book-entry Commercial Paper, which book-entry Commercial Paper shall be identified on the records of the State maintained by the Issuing and Paying Agent, and no Beneficial Owner (the person or persons in whose name beneficial ownership of Commercial Paper is recorded by DTC or a DTC participant on the records of DTC or such participant) or any person other than DTC or its nominee shall receive authenticated Commercial Paper instruments except as described below.

For so long as Commercial Paper is held in book-entry-only form and DTC or its nominee is the registered owner of the Master Notes, DTC and its nominee shall be deemed to be and be treated by the State and the Issuing and Paying Agent as the sole and exclusive holder of the Master Notes and of all book-entry Commercial Paper evidenced by the Master Notes, and the beneficial owners of book-entry Commercial Paper shall not be deemed to be or treated as the holders thereof, for the purposes of payment of the principal of or interest on such book-entry Commercial Paper, payments under the Master Notes, giving any notice permitted or required to be given to holders under the Commercial Paper Resolution, registering the transfer of the Master Notes, obtaining any consent or other action to be taken by holders, and for any and all other purposes whatsoever, and neither the State nor the Issuing and Paying Agent shall be affected by any notice to the contrary. The Issuing and Paying Agent will pay all principal of and interest on book-entry Commercial Paper only to or upon the order of Cede & Co., and all such payments shall be valid and effective to fully satisfy and discharge the State's obligations with respect to the principal of and interest on such book-entry Commercial Paper to the extent of the sum or sums so paid.

DTC may determine not to continue to act as securities depository for the Commercial Paper, and the State may determine to discontinue the book-entry-only issuance of the Commercial Paper through DTC and in such case shall deliver a written notice to the Issuing and Paying Agent and the Dealer to that effect. In either case, if the State determines to replace the DTC with another qualified securities depository, the State shall prepare or direct the preparation of one or more new, separate, fully registered Master Notes, registered in the name of such successor or substitute qualified securities depository or its nominee, or make such other arrangements acceptable to the State, the Issuing and Paying Agent and the replacement securities depository as are not inconsistent with the terms of the Commercial Paper Resolution, all subject to DTC's procedures. If the State fails to identify another securities depository to replace DTC, the State may amend the Commercial Paper Resolution and shall deliver to the Issuing and Paying Agent for safekeeping, completion, authentication, and delivery in accordance with the provisions of the Commercial Paper Resolution, as so amended, and of the Issuing and Paying Agency Agreement, Commercial Paper instruments.

The State and the Issuing and Paying Agent may conclusively rely on information from DTC and its participants as to the names of Beneficial Owners, and neither the State nor the Issuing and Paying Agent shall be liable for any delay or delivery of such information.

Neither the State nor the Issuing and Paying Agent shall have any responsibility or obligation to any DTC participant or indirect participant, or any nominee of any thereof, any person claiming a beneficial ownership interest in Commercial Paper under or through DTC or any DTC participant or indirect participant, or any other person which is not shown on the books of the Issuing and Paying Agent as being the holder of a Master Note, with respect to: sending transaction statements; maintaining, supervising or reviewing, or the accuracy of, any records maintained by DTC or any DTC participant or other nominee of such beneficial owners; payment or the timeliness of payment by DTC to any DTC participant, or by any DTC participant or other nominees of beneficial owners to beneficial owners, of any amount in respect of the principal of or interest on book-entry Commercial Paper; delivery or timely delivery by DTC to any DTC participant, or by any DTC participant or other nominees of beneficial owners to beneficial owners, of any notice which is permitted or required to be given to holders under the Commercial Paper Resolution; or any consent given or other action taken by DTC or its nominee as holder of Commercial Paper.

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FORM OF OPINION OF HAWKINS DELAFIELD & WOOD LLP

THE OPINION BELOW WAS DELIVERED ON AUGUST 28, 2009,
SPEAKS AS OF ITS DATE AND IS NOT BEING REISSUED

August 28, 2009

The Honorable Governor and Members of
the Funding Board of the State of Tennessee
Suite 1600, James K. Polk Building
Nashville, Tennessee 37243-0273

Dear Sirs:

STATE OF TENNESSEE
GENERAL OBLIGATION COMMERCIAL PAPER

At your request, we have acted as bond counsel to the State of Tennessee (the "State") in connection with General Obligation Commercial Paper (the "Commercial Paper") of the State to be issued and sold from time to time pursuant to a resolution of the Funding Board of the State (the "State Funding Board") duly adopted on March 6, 2000, as amended and restated on August 5, 2009, (the "Commercial Paper Resolution") authorizing the issuance of Commercial Paper in an aggregate principal amount outstanding at any time not exceeding \$350,000,000, consisting of two series, to wit: General Obligation Commercial Paper, Series A (Tax-Exempt) and General Obligation Commercial Paper, Series B (Federally Taxable). Terms used herein and not defined herein shall, for all purposes hereof, have the respective meanings given to them in the Commercial Paper Resolution.

We have examined the Constitution and statutes of the State of Tennessee; certified copies of proceedings of the State Funding Board authorizing the issuance and sale of the Commercial Paper, including proceedings of the State Funding Board upon the adoption of the Commercial Paper Resolution; and such other records, documents and applicable law and regulations as we have considered necessary or appropriate for purposes of this opinion.

Issuance of Commercial Paper requires adoption by the General Assembly of Public Acts authorizing general obligation bonds and bond anticipation notes, authorization by the State Funding Board of bonds in anticipation of which bond anticipation notes may be issued as Commercial Paper, determinations to issue Commercial Paper within such authorizations and the satisfaction of additional requirements of the Commercial Paper Resolution. For purposes of this opinion, we assume without further investigation the validity of all Public Acts of the General Assembly and authorizations of the State Funding Board (other than the Commercial Paper Resolution) pursuant to which Commercial Paper is issued and the satisfaction of all other requirements of the Commercial Paper Resolution for the issuance of Commercial Paper.

Based on the foregoing, it is our opinion that:

1. The Commercial Paper Resolution has been duly adopted by the State Funding Board, constitutes a contract with the holders of outstanding Commercial Paper, and is a valid obligation of the State.
2. Upon due issuance of Commercial Paper as provided in the Commercial Paper Resolution and the Issuing and Paying Agency Agreement, and receipt by or on behalf of the State of payment therefor, the Commercial Paper will have been duly authorized in accordance with the Constitution and laws of the State and will constitute valid 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.
3. Under existing statutes and court decisions, and assuming compliance with the tax covenant referred to below, the interest on duly issued Tax-Exempt Commercial Paper (i) will not be included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) under the Code, such interest will not be treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable

to individuals and corporations; such interest, however, will be includable in the adjusted earnings of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of any Tax-Exempt Commercial Paper in order that interest on such Tax-Exempt Commercial Paper may be and remain not included in gross income under Section 103 of the Code. Noncompliance by the State with such requirements may require inclusion of interest on such Tax-Exempt Commercial Paper in gross income retroactive to the date of issuance of such Tax-Exempt Commercial Paper, regardless of when such noncompliance occurs. The State has covenanted in the Commercial Paper Resolution to comply with certain provisions and procedures, pursuant to which such requirements of the Code can be satisfied.

4. Under existing laws of the State, duly issued Commercial Paper, and the interest thereon, 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 State law.

We express no opinion regarding Federal, state or local tax consequences arising with respect to the Commercial Paper, or the ownership or disposition thereof, except as stated in paragraphs 3 and 4 above.

With respect to the opinions expressed in paragraphs 1 and 2, the State has not 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. In addition, such opinions 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.

The Commercial Paper Resolution requires in connection with certain events thereunder that there be rendered an opinion of bond counsel. No opinion is expressed herein to the extent affected by such an opinion of bond counsel other than Hawkins Delafield & Wood LLP.

We express no opinion herein as to the accuracy, adequacy, sufficiency or completeness of any Offering Memorandum (or any update or amendment thereof or supplement thereto) relating to the Commercial Paper, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Commercial Paper.

You may continue to rely upon this letter to the extent (i) we have not advised you that this opinion may no longer be relied upon, (ii) there is no change in pertinent existing law or regulations or in interpretations thereof including, in the case of Tax-Exempt Commercial Paper, regulations, rulings and interpretations of the Internal Revenue Service, subsequent to the date of issuance of this opinion, (iii) the representations, warranties, covenants and agreements contained in the Commercial Paper Resolution, including those referred to in the third paragraph hereof relating to the authorization and issuance of Commercial Paper, and in certificates, including the certificate as to Federal tax matters, dated the date hereof, executed and delivered by authorized officers of the State (and supplements and additions thereto satisfactory to us), remain true and accurate and are complied with and (iv) no litigation is pending affecting the issuance, legality or validity of any Commercial Paper or the exclusion of interest on the Tax-Exempt Commercial Paper from gross income for purposes of Federal income taxation.

The representations, warranties, covenants and agreements referred to in the preceding paragraph relate, among other things, to the issuance of Commercial Paper on and after the date hereof for lawful purposes and in authorized amounts and, in the case of Tax-Exempt Commercial Paper, in satisfaction of all conditions to issuance on a tax-exempt basis. However, we undertake no responsibility to either (i) notify you or any other person prior to the delivery of any Commercial Paper if the conditions stated in the preceding paragraph have not been met or (ii) review any legal matters incident to the authorization, issuance, validity and tax exemption of Commercial Paper, or the purposes to which the proceeds thereof are to be applied, after the date hereof.

This 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 of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

DRAFT



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATE OF TENNESSEE**



DAVID H. LILLARD, JR.
STATE TREASURER

TREASURY DEPARTMENT
STATE CAPITOL

MARY JO PRICE
CHIEF OPERATING OFFICER

NASHVILLE, TENNESSEE 37243-0225

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

JILL BACHUS
DIRECTOR OF TCRS

June 2, 2016

The Honorable Justin Wilson
Secretary of the Funding Board
Comptroller of the Treasury
State Capitol, 1st Floor
Nashville, TN 37243

Dear Comptroller Wilson:

The Tennessee Consolidated Retirement System ("TCRS") intends to enter into an amended and restated contract (the "Contract") with the State Funding Board to serve as a standby purchaser under the State's commercial paper program. The Contract will be effective on July 1, 2016 and expires on July 1, 2021.

Either party will be able to terminate the Contract by giving notice to the other party at least the longer of (i) ninety (90) calendar days or (ii) the remaining number of calendar days to maturity of any then-outstanding commercial paper plus one (1) calendar day. TCRS does not presently plan to terminate the Contract at any time prior to July 1, 2017.

Tennessee Code Annotated, Section 8-37-104 (a)(8) authorizes TCRS to serve as a standby note purchaser. The Board of Trustees (the "Board") of TCRS has adopted a provision in the investment policy of TCRS (the "Policy") authorizing TCRS to enter into such contracts.

Pursuant to the powers accorded it in Tennessee Code Annotated, Section 8-37-110 and in the Policy, the Board has delegated implementation of the Policy to the Treasurer. The Policy further provides that the Treasurer has delegated certain responsibilities to the Chief Investment Officer of TCRS, including the power to invest and reinvest the assets of TCRS.

Accordingly, I have the authority to issue this letter on behalf of TCRS.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Brakebill".

Michael Brakebill, CFA
Chief Investment Officer



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

Justin P. Wilson
Comptroller

June 6, 2015

Mr. Michael Brakebill
Chief Investment Officer
Tennessee Consolidated Retirement System
Nashville, TN 37243

Dear Mr. Brakebill:

The Tennessee Consolidated Retirement System ("TCRS") has entered into a contract (the "Contract") with the State of Tennessee (the "State"), acting by and through the State Funding Board, to serve as a standby purchaser under the State's commercial paper program. The Contract expires on July 1, 2021.

Either party may terminate the Contract by giving notice to the other party of at least the longer of (i) ninety (90) calendar days or (ii) the remaining number of calendar days to maturity of any then-outstanding commercial paper plus one (1) calendar day. You have informed me that TCRS does not presently plan to terminate the Contract at any time prior to July 1, 2017.

In consideration of, and in response to, your advance notification that TCRS will not cancel during the upcoming fiscal year, I am authorized to inform you that the State Funding Board also does not plan to terminate the Contract at any time prior to July 1, 2017.

Sincerely,

Justin P. Wilson
Secretary, State Funding Board

**A RESOLUTION AUTHORIZING AND PROVIDING FOR
THE ISSUANCE AND SALE OF GENERAL OBLIGATION
BONDS OF THE STATE OF TENNESSEE**

BE IT RESOLVED BY THE FUNDING BOARD OF THE STATE OF TENNESSEE:

SECTION 1. Findings and Determinations. (a) The State of Tennessee (the “**State**”), by various Public Acts of its General Assembly, has authorized, and is expected to authorize, the issuance of general obligation bonds of the State in the respective principal amounts and for public purposes of the respective State departments and institutions, among others, including without limitation to make grants to counties, metropolitan governments, incorporated towns, cities, special districts of the State, or government agencies or instrumentalities of any of them, all as set forth therein. General obligation bonds and bond anticipation notes have been issued against certain of such authorizations, and certain of such authorizations have been cancelled and rescinded.

(b) By resolutions adopted by the Funding Board of the State of Tennessee (the “**Funding Board**”) on July 14, 1994, May 15, 1995, August 23, 1995, August 26, 1996, September 10, 1997, August 7, 1998, August 31, 1999, August 23, 2000, October 15, 2001, July 30, 2002, June 27, 2003, July 26, 2004, August 5, 2005, June 27, 2006, July 23, 2007, June 30, 2008, March 24, 2009, August 5, 2009, July 15, 2010, June 30, 2011, June 6, 2012, June 25, 2013, June 18, 2014, and June 23, 2015, each entitled “A RESOLUTION AUTHORIZING THE ISSUANCE OF GENERAL OBLIGATION BONDS OF THE STATE OF TENNESSEE” or “A RESOLUTION AUTHORIZING, AND AMENDING A RESOLUTION AUTHORIZING, THE ISSUANCE OF GENERAL OBLIGATION BONDS OF THE STATE OF TENNESSEE” (collectively, the “**Bond Resolution**”), the Funding Board has authorized the issuance of general obligation bonds of the State under the provisions of certain of the Public Acts of the General Assembly referred to in subsection (a) above.

(c) Pursuant to a resolution adopted by the Funding Board on March 6, 2000, as amended and restated on August 5, 2009, entitled “RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF COMMERCIAL PAPER; AUTHORIZING AND PROVIDING FOR A STANDBY COMMERCIAL PAPER PURCHASE AGREEMENT; AND PROVIDING FOR CERTAIN OTHER MATTERS RELATING THERETO” (the “**Commercial Paper Resolution**”), the State authorized the issuance from time to time of bond anticipation notes constituting General Obligation Commercial Paper Series A (Tax-Exempt) and Series B (Federally Taxable) in an aggregate principal amount not to exceed \$350,000,000 at any one time outstanding (the “**Commercial Paper**”) for the purposes set forth in the Commercial Paper Resolution, the Bond Resolution and the Public Acts of Tennessee referred to in the Bond Resolution.

(d) The outstanding Commercial Paper matures from time to time, and it is in the best interests of the State to pay at maturity a portion of the outstanding Commercial Paper (the “**Refundable Commercial Paper**”) by issuance of general obligation bonds of the State.

(e) Pursuant to resolutions adopted by the Funding Board on:

(i) June 30, 2008, including as a part thereof the Series Certificate dated September 4, 2008 (the “**2008B Resolution**”), the State issued \$15,360,000 aggregate principal amount of General Obligation Bonds, 2008 Series B (Federally Taxable) (the “**2008B Bonds**”),

(ii) October 20, 2009, including as a part thereof the Series Certificate dated December 16, 2009 (the “**2009D Resolution**”), the State issued \$54,110,000 aggregate principal amount of General Obligation Bonds, 2009 Series D (Federally Taxable) (the “**2009D Bonds**”),

(iii) September 20, 2010, including as a part thereof the Series Certificate dated October 27, 2010 (the “**2010A-B Resolution**”), the State issued \$186,505,000 aggregate principal amount of General Obligation Bonds, 2010 Series A (the “**2010A Bonds**”), and \$44,940,000 aggregate principal amount of General Obligation Bonds, 2010 Refunding Series B (Federally Taxable) (the “**2010B Bonds**”),

(iv) September 8, 2011, including as a part thereof the Series Certificate dated October 26, 2011 (the “**2011A Resolution**”), the State issued \$255,400,000 aggregate principal amount of General Obligation Bonds, 2011 Series A (the “**2011A Bonds**”),

(v) October 3, 2012, as amended November 20, 2012, including as a part thereof the Series Certificate dated December 4, 2012 (the “**2012B Resolution**”), the State issued \$140,000,000 aggregate principal amount of General Obligation Bonds, 2012 Series B (the “**2012B Bonds**”), and

(vi) June 18, 2014, including as a part thereof the Series Certificate dated August 19, 2014 (the “**2014A Resolution**”), the State issued \$111,065,000 aggregate principal amount of General Obligation Bonds, 2014 Series A (the “**2014A Bonds**”).

Depending on market conditions, the refunding of the 2008B Bonds, 2009D Bonds, 2010A Bonds, 2010B Bonds, 2011A Bonds, 2012B Bonds, and 2014A Bonds that are currently outstanding (the “**Refundable Bonds**”) may accomplish cost savings to the public.

(f) It is advisable and in the best interests of the State to provide at this time for the issuance of general obligation bonds as authorized by Section 2 hereof to refund Refundable Bonds, to refund Refundable Commercial Paper and to fund purposes in amounts authorized by Public Acts of the General Assembly and not heretofore funded by issuance of Commercial Paper.

(g) The Funding Board acknowledges that the Director of the Office of State and Local Finance has made a presentation to the staff of the Funding Board pursuant to and meeting the requirements of the Funding Board’s Debt Management Policy (the “**Debt Management Policy**”) under the subsection “Debt Administration – Planning for Sale”.

SECTION 2. Authorization of Bonds; Delegation; Series Certificate. (a) There is hereby authorized to be issued and sold general obligation bonds of the State (the “**Bonds**”) for the purposes set forth in Section 1 hereof. The Bonds may be issued (i) at one time or from time to time and (ii) as one or more series the interest on which is excluded from gross income

for Federal income tax purposes (the “**Tax-Exempt Bonds**”) and/or in one or more series the interest on which is included in gross income for Federal income tax purposes (the “**Taxable Bonds**”).

(b) Prior to or simultaneous with the issuance of the Bonds for the purposes set forth in Sections 1(b) and (d) hereof, the Secretary or Assistant Secretary of the Funding Board shall certify as of the date of issuance (i) the purpose or purposes for which such Bonds are to be issued including reference to the Public Act or Acts of the General Assembly authorizing the issuance of general obligation bonds and bond anticipation notes therefor, (ii) the principal amount of such Bonds proposed to be issued for each such purpose, including the principal amount of Refundable Commercial Paper of each series to be refunded from proceeds of such Bonds, (iii) the principal amount of general obligation bonds and bond anticipation notes (including Commercial Paper) theretofore issued for each such purpose and (iv) that such principal amount of general obligation bonds and bond anticipation notes, together with the principal amount of such Bonds, will not exceed the aggregate principal amount of general obligation bonds and bond anticipation notes (unless, in the case of notes, such notes have been funded by issuance of bonds) authorized by such Public Act or Acts less any such authorization theretofore rescinded or cancelled or otherwise not in effect. The certification required by such clause (ii) may be amended from time to time subsequent to the date of issuance, but only if accompanied by the certifications required by such clauses (iii) and (iv) which shall reflect such amendment.

(c) The Funding Board hereby delegates to the Secretary or any Assistant Secretary of the Funding Board, the Secretary of State or the State Treasurer (each, an “**Authorized Officer**”) the power to determine, by means of a Series Certificate or Series Certificates (each, a “**Series Certificate**”), the following:

(vii) the matters provided in this Section and Sections 3, 5, 6, 7 and 8 hereof, and

(viii) any other matters and provisions deemed advisable by such Authorized Officer and not materially in conflict herewith.

(d) The Series Certificate applicable to each series of refunding Bonds, issued for the purposes set forth in Section 1(e) hereof, shall specify the Refundable Bonds to be refunded by such refunding Bonds (the “**Bonds to be Refunded**”). Refunding Bonds shall not be issued unless (i) the issuance thereof and the refunding of the Bonds to be Refunded thereby results in aggregate present value savings of at least 4.0%, net of estimated costs of issuance of the Refunding Bonds, as such savings shall be certified to the Funding Board by the Financial Advisor (the “**Financial Advisor**”) to the Funding Board, (ii) such savings are equal to or greater than twice the costs of issuance of the Refunding Bonds, and (iii) an Authorized Officer by execution of a Series Certificate confirms the receipt of such certification of the Financial Advisor and, based thereon, determines that the refunding of the Bonds to be Refunded accomplishes cost savings to the public.

Present value savings shall be calculated by (i) comparing the debt service on each series of refunding Bonds to the remaining debt service on the Bonds to be Refunded

thereby, present valued to the issue date of such refunding Bonds at a discount rate equal to the arbitrage yield on such refunding Bonds calculated (whether for Tax-Exempt Bonds or Taxable Bonds) in the same manner as arbitrage yield is calculated for Federally tax-exempt bonds; provided, however, if a series of Bonds is being issued for the purpose of refunding Bonds to be Refunded and for other purposes, only the portion of such Bonds issued for the purpose of refunding Bonds to be Refunded (and related allocable costs of issuance) shall be included in such calculations. Percentage present value savings shall be expressed as a percentage of the par amount of such Bonds to be Refunded.

(e) Each Series Certificate shall be filed with the records of the Funding Board, whereupon it shall be deemed for all purposes of this Resolution to have been adopted by the Funding Board and to be a part of this Resolution as if set forth in full herein.

(f) The State (acting through the State Treasurer or the State Comptroller or both) initially shall be the paying agent and registrar for all Bonds. The Funding Board may at any time appoint an agent of the State for the purpose of making payments to registered owners of all or any of the Bonds of the principal of and redemption premium, if any, and interest on such Bonds, maintaining books of registry of the ownership of such Bonds and registering the ownership and transfer thereof, authenticating such Bonds, or performing such other duties of a paying agent and registrar as may be prescribed by the Funding Board.

SECTION 3. Details of Bonds. The following provisions set forth details of the Bonds, subject in each case (except subsection (a) of this Section) to any contrary specification in a Series Certificate.

(a) Amounts, Dates, Interest Rates, Etc. The Bonds shall (i) be in such aggregate principal amount, except in the case of Bonds to be issued for the purposes specified in Section 1(e) hereof, not to exceed \$200,000,000, (ii) be dated and bear interest from such date or dates, (iii) be issuable in such form, (iv) be of such denominations, (v) be numbered and bear such other designations, (vi) mature on the dates (which shall not be later than 21 years after the date of issuance) and in the principal amounts, (vii) bear interest at the rates, not to exceed 5.00% in the case of the Tax-Exempt Bonds and 6.00% in the case of the Taxable Bonds, and be payable on the dates and in the manner, (viii) be serial bonds or term bonds, (ix) if term bonds, be subject to retirement by mandatory sinking fund redemption, and (x) be subject to redemption prior to maturity at the times (but initially not later than ten and one-half years from the date of initial delivery of the Bonds) and at a fixed redemption price or prices not to exceed 103% of the principal amount to be redeemed or, in the case of Taxable Bonds, at such a fixed redemption price or prices or at a make-whole price or prices, or a combination thereof, in each case plus accrued interest, or may be non-callable if (except for Tax-Exempt Bonds maturing not later than ten and one-half years from the date of initial delivery or for Taxable bonds) so determined by the Funding Board by further action pursuant to the Debt Management Policy subsection "Debt Management Structure – Call Provisions", all as provided in the respective Series Certificate.

(b) Payment, Transfer, Exchange, Etc. Principal of and redemption premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of such payment is legal tender for the payment of public and private debts.

Principal of and redemption premium, if any, and interest on the Bonds shall be payable by check or draft mailed to each registered owner of such Bonds at the address of such owner as it appears in the books of registry maintained by or on behalf of the State, in the case of interest only to such owner and to such address as of the close of business on such day as shall be determined by Series Certificate, and in the case of principal and redemption premium only upon presentation and surrender to the State Treasurer in Nashville, Tennessee, or an agent of the State designated for the purpose; provided, however, that for so long as DTC (as defined in subsection (d) of this Section) or its nominee, or any substitute depository, or successor, is the registered owner of Bonds as Securities Depository (as defined in subsection (d) of this Section), payment of principal and sinking fund installments, if any, of and redemption premium, if any, and interest on such Bonds may be made in any manner agreed to by the State and DTC, or any substitute depository, or successor, as the case may be.

The Bonds will have all the qualities and incidents of a negotiable instrument. Bonds will be transferable only upon presentation and surrender to the State or an agent of the State designated in accordance with this Resolution, together with an assignment duly executed by the registered owner of the Bond or by his duly authorized representative in form satisfactory to the State or such agent and containing information required by the State or such agent in order to effect such transfer.

The State or any such agent may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to an exchange or transfer of a Bond, and may charge the person requesting such exchange or transfer a sum or sums sufficient to pay the cost of preparing each new Bond issued, which sum or sums shall be paid as a condition precedent to the exercise of the privilege of making such exchange or transfer.

The State and such agent shall not be obligated to make any such exchange or transfer of Bonds during the 15 days next preceding an interest payment date on the Bonds or, in the case of any proposed redemption of the Bonds, during the 45 days next preceding the date of redemption.

In case any Bond shall become mutilated or be destroyed, stolen or lost, the State shall execute and deliver, or cause such agent to authenticate and deliver, a new Bond of like series, maturity, principal amount and interest rate as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond, or in lieu of and in substitution for the Bond destroyed, stolen or lost, upon filing with the State and such agent evidence satisfactory to the State and such agent that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the State with indemnity satisfactory to it and complying with such other reasonable regulations as the State may prescribe and paying such expenses as the State and such agent may incur. All Bonds so surrendered to the State or such agent shall be cancelled by it.

(c) Optional Redemption. The Bonds may be subject to redemption prior to their stated maturities, from any moneys available to the State for such purpose, as determined pursuant to Section 3(a)(x) hereof.

Notice of redemption shall be mailed, or delivered by physical or electronic means, not less than 30 days prior to the redemption date, to the registered owners of the Bonds which are to be redeemed in whole or in part at the mail, physical or electronic means addresses as shown in the bond register kept by the State or its agent as of the 45th calendar day preceding the redemption date, but the failure to receive any such notice shall not affect the sufficiency or the validity of the redemption of such Bonds. Such notice shall specify the designation, date, number, and maturity of the bonds to be redeemed, the principal amount to be redeemed if less than the entire principal amount thereof, the date and place fixed for such redemption and the redemption price payable upon such redemption. The provisions of this paragraph shall not apply if and to the extent otherwise provided in a Series Certificate.

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 the foregoing conditional notice provisions. Upon presentation and surrender of the Bonds to be redeemed in whole or in part at the offices specified in such notice, together with, in the case of Bonds presented by other than the registered owner, a written instrument of transfer duly executed by the registered owner or by the registered owner's duly authorized representative, such Bonds or portions thereof so called for redemption shall be paid at the redemption price established above. If less than all of a Bond shall be redeemed, the State shall execute and deliver, or cause an agent of the State appointed for the purpose to authenticate and deliver, upon the surrender of such Bond, without charge to the registered owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, registered Bond(s) of like series, maturity and interest rate in authorized denominations. If, on the redemption date, moneys for the redemption of all of the Bonds or portions thereof of any like maturity to be redeemed, together with interest to the redemption date, shall be held so as to be available for purposes of redemption on said date and if notice of redemption shall have been given as required by this Resolution, then from and after the redemption date, interest on the Bonds or portions thereof of such maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. The provisions of this paragraph shall not apply if and to the extent otherwise provided in a Series Certificate.

Notwithstanding the foregoing, so long as DTC or its nominee, or any substitute depository, or successor, is the registered owner of Bonds as Securities Depository (as defined in subsection (d) of this Section), notice of redemption may be given in the manner, and presentation and surrender of Bonds may be waived to the extent, agreed to by the State and DTC, or any substitute depository, or successor, as the case may be. Any failure of DTC or any substitute depository, or successor, or participant of any thereof, to notify a beneficial owner of a Bond of any redemption shall not affect the sufficiency or the validity of the redemption of such Bond.

(d) Book-Entry Only. The Bonds when initially issued shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC is hereby designated the securities depository for the Bonds (“Securities Depository”), except as provided in subsection (f) of this Section. So long as DTC or its nominee is the registered owner of the Bonds as Securities Depository, individual purchases of beneficial ownership interests in the Bonds may be made only in book-entry form by or through DTC participants, and purchasers of such beneficial ownership interests in Bonds will not receive physical delivery of Bond certificates representing the beneficial ownership interest purchased.

The State shall have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Bonds or nominees thereof.

(e) Replacement Bonds. The State shall issue Bond certificates (the “**Replacement Bonds**”) directly to beneficial owners of the Bonds or to DTC, as specified by DTC procedures, but only in the event that (i) DTC determines to discontinue providing its services with respect to the Bonds, or (ii) the State discontinues use of DTC (or any substitute depository, or successor), subject to DTC procedures. The State shall be fully protected in relying upon information provided by DTC, DTC participants or other nominees of beneficial owners, or beneficial owners with respect to the names, addresses and amounts owned by the beneficial owners and other information supplied by them for the purpose of delivering Replacement Bonds.

(f) Substitute Securities Depository. Provisions similar to those contained in subsections (d) and (e) of this Section may be made by the State in connection with the appointment by the State of a substitute Securities Depository for the Bonds, or in the event of a successor to DTC, or to any substitute or successor of any thereof.

SECTION 4. Security for the Bonds. The Bonds shall be issued under Title 9, Chapter 9, Tennessee Code Annotated, and shall constitute direct general obligations of the State for the payment of the principal of and premium, if any, and interest on which there is pledged the full faith and credit of the State. 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 of the State; 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. The State hereby covenants with the persons who now or may hereafter hold any Bonds 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 as and when due and payable.

SECTION 5. Sale and Issuance of Bonds; Preliminary Official Statement; Final Official Statement. (a) If the Bonds are divided pursuant to Section 2(a) hereof, the Bonds of more than one series may be sold collectively or on a series-by-series basis.

(b) No Bonds shall be sold unless the debt service coverage test of Section 9-9-105(c), Tennessee Code Annotated, will be satisfied as of the date of issuance of such Bonds.

(c) The Bonds of each series may be sold at either a competitive or negotiated sale, the Bonds of any series may be sold by any such method, and the Bonds of any other series may be sold by any other such method, as determined in a Series Certificate.

(d) If Sold by Competitive Sale:

(1) There is hereby authorized a Notice of Sale relating to the Bonds sold at competitive sale, substantially in the form utilized in connection with the sale of the State's General Obligation Bonds, 2012 Series B and 2012 Refunding Series C (Federally Taxable), with such insertions, changes and additions to and omissions from said form as any Authorized Officer, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate (the "**Notice of Sale**"), the distribution of which as hereinafter authorized shall be conclusive evidence of such approval and consultation.

(2) Any Authorized Officer is hereby authorized to cause the Notice of Sale and Preliminary Official Statement (as defined in subsection (f) of this Section 5) to be distributed to prospective purchasers of such Bonds and/or published on any Internet platform. The use of any Internet platform as a communications medium to receive bids for the purchase of such Bonds, as may be provided in the Notice of Sale, also is hereby authorized.

(3) Any Authorized Officer may award the Bonds to the successful bidder or bidders therefor (the "**Competitive Sale Purchasers**") determined in accordance with and otherwise complying with the Notice of Sale or, as permitted by the Notice of Sale, may reject any or all proposals received for the purchase of such Bonds or waive any irregularity in any proposal; *provided*, however, that the true interest cost of such Bonds, determined as provided in the Notice of Sale by the Authorized Officer executing the related Series Certificate, which determination shall be conclusive, shall not exceed 5.00% for Tax-Exempt Bonds of each series and 6.00% for Taxable Bonds of each series, on a series-by-series basis. Such awards and determinations shall be confirmed in the related Series Certificate.

(e) If Sold by Negotiated Sale:

(1) The Bonds sold at negotiated sale are hereby authorized to be sold to such underwriters as may be named in the Bond Purchase Agreement authorized in paragraph (2) below (collectively, the "**Negotiated Sale Purchasers**" and, together with the Competitive Sale Purchasers, the "**Purchasers**") upon the terms and conditions set forth in the Bond Purchase Agreement; *provided*, however, that the lead book-running underwriter and senior manager(s) thereunder shall be selected from among the following or any parent or affiliate thereof: Citigroup Global Markets Inc.; J.P. Morgan Securities LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Morgan Stanley & Co., LLC; Piper Jaffray & Co.; Raymond James & Associates, Inc.; SunTrust Investment Services, Inc.; and Wells Fargo Securities, LLC. In consideration of Section 2(d) hereof and paragraph (2) below, it is not necessary for the Funding Board to place any limitation on the purchase price payable by the Negotiated Sale Purchasers.

(2) Any Authorized Officer is hereby authorized to execute and deliver a Bond Purchase Agreement or Agreements, substantially in the form executed and delivered in

connection with the issuance of the State's General Obligation Bonds, 2015 Series A and 2015 Refunding Series B, but reflecting details of the transactions contemplated by this Resolution, with such variations as the Authorized Officer executing such agreements, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate (each, a **"Bond Purchase Agreement"**), such execution and delivery to be conclusive evidence of such approval and consultation; *provided*, however, that the true interest cost of such Bonds, determined by a Series Certificate, which determination shall be conclusive, shall not exceed 5.00% for Tax-Exempt Bonds of each series and 6.00% for Taxable Bonds of each series, on a series-by-series basis.

(f) The Funding Board hereby authorizes a Preliminary Official Statement relating to the Bonds, substantially in the form presented to the Members of the Funding Board in advance of the meeting at which this Resolution is adopted, with such insertions, changes and additions to and omissions from said form as any Authorized Officer, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate (the **"Preliminary Official Statement"**), the publication or distribution of which as hereinafter authorized shall be conclusive evidence of such approval and consultation; *provided*, however, that a draft thereof shall be distributed to the members of the Funding Board prior to publication and distribution as hereinafter authorized. The Comptroller of the Treasury, as Secretary of the Funding Board, the Secretary of State or the State Treasurer is hereby authorized to cause the Preliminary Official Statement to be distributed to prospective purchasers of the Bonds and/or published on the Internet via any Internet platform, substantially in such form, with such necessary or appropriate variations, omissions and insertions as determined by such officer after consultation with counsel to the Funding Board. The Comptroller of the Treasury, as Secretary of the Funding Bond, the Secretary of State or the State Treasurer is authorized to (i) determine that the Preliminary Official Statement, as so modified, is "deemed final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12 except for omissions permitted by such Rule, subject to revision, amendment and completion in the final Official Statement as defined in such Rule, (ii) include such determination in the Notice of Sale and/or Preliminary Official Statement, and (iii) confirm such determination in a Series Certificate or Bond Purchase Agreement.

(g) The Comptroller of the Treasury, as Secretary of the Funding Board, is hereby authorized and directed to prepare or cause to be prepared, and to execute and deliver, an Official Statement relating to the Bonds substantially in the form of the Preliminary Official Statement, with such necessary or appropriate insertions, changes, additions and omissions as determined by the Comptroller after consultation with counsel to the Funding Board, which execution shall be conclusive evidence of such determination and consultation.

(h) The Funding Board hereby authorizes the use and distribution of the Preliminary Official Statement and the Official Statement in connection with the offering and sale of the Bonds.

(i) The Authorized Officers and other officers and employees of the Funding Board, and other officials and employees of the State, including those of the Office of State and Local Finance of the State, are hereby authorized and directed to carry out or cause to be carried out all obligations of the Funding Board under each Bond Purchase Agreement and to execute and deliver all documents and to perform such other actions not otherwise provided for by this

Section as they, in consultation with counsel to the Funding Board, shall consider necessary or advisable in connection with the issuance, sale and delivery of the Bonds.

(j) All actions heretofore taken by the officers, employees and agents of the Funding Board in connection with the offering and sale of the Bonds are hereby ratified and confirmed.

SECTION 6. Form and Execution of Bonds. (a) The Bonds shall be in substantially the form set forth in Appendix A to this Resolution with necessary or appropriate insertions, changes, additions and omissions as are incidental to series, number, interest rate, CUSIP number and denomination or as are otherwise permitted or required by law or by this Resolution (including but not limited to such changes as may be provided in or to be consistent with the respective Series Certificate), or in such other form as may be specified by an Authorized Officer in the case of Bonds not held by a securities depository under a book-entry-only system of registration. The Bonds shall be executed in the name of the State by the manual or facsimile signature of the Governor, the Secretary of State, the State Treasurer, the Commissioner of Finance and Administration or the Comptroller of the Treasury, and countersigned by the manual or facsimile signature of one other of such officers, one of which signatures shall be manual (unless the Bonds shall be authenticated pursuant to subsection (b) below), with the Great Seal of the State of Tennessee, or a facsimile thereof, affixed thereto or impressed or imprinted thereon.

(b) The Bonds each may have endorsed thereon a certificate of authentication executed by the registrar therefor either by manual or facsimile signature. If any Bonds contain such an endorsement unless and until such certificate of authentication shall have been manually executed by an authorized officer of such registrar, no such Bond shall be valid or obligatory for any purpose or shall be entitled to any right or benefit under the Resolution. Notwithstanding the foregoing, the provisions of this paragraph shall not apply to Bonds if the State is the registrar therefor.

SECTION 7. Application of Bond Proceeds and Other Moneys. (a) An amount of proceeds derived from the sale of each series of Bonds equal to the accrued interest, if any, paid by the Purchasers thereof shall be deposited in the Debt Service Fund and used to pay a portion of the interest on such Bonds coming due on the first interest payment date or dates therefor.

(b) An amount of proceeds derived from the sale of each series of Bonds, which may include a portion of any premium over the par amount of such Bonds paid by the Purchasers thereof, equal to any principal amount of the Refundable Commercial Paper to be paid from such proceeds, as provided in Sections 1(d) and 2(a) hereof, shall be deposited in the Capital Projects Fund and used solely for the purpose of paying such principal when due at maturity in accordance with the Commercial Paper Resolution.

(c) An amount of proceeds derived from the sale of each series of Bonds to be applied to the refunding of the Bonds to be Refunded, which may include a portion of any premium over the par amount of such Bonds paid by the Purchasers thereof, shall be deposited, held, invested and applied as provided in Section 8 hereof.

(d) The portion of any premium paid by the Purchasers for each series of Bonds which is not applied as described in subsection (b) or (c) above shall be used for purposes described in subsection (e) below or deposited in the Debt Service Fund and used to pay a portion of the interest on such Bonds coming due on the first interest payment date or dates therefor, or costs of issuing such Bonds.

(e) The balance, if any, of the proceeds derived from the sale of each series of Bonds shall be paid to the State Treasurer to be disbursed by the State Treasurer and other proper fiscal officers of the State as provided by general law and by the Public Acts of Tennessee referred to in Section 1(a) hereof, including but not limited to disbursement to pay costs of issuance of the Bonds. Without limiting the generality of the foregoing, such disbursements may be made in reimbursement of previous expenditures for such purposes.

(f) If and when any premium paid by the Purchasers is applied to the retirement of Commercial Paper as described in subsection (b) above or to pay costs of capital projects as described in subsection (e) above, the related bond authorizations shall be accounted for as issued to the extent of the amounts so applied.

SECTION 8. Refunding Trust Agreements; Redemption of Bonds to be Refunded. (a) The Funding Board hereby authorizes any Authorized Officer to execute and deliver a Refunding Trust Agreement or Refunding Trust Agreements between the State, acting by and through the Funding Board, and a refunding trustee (which may be the State Treasurer) to be appointed by Series Certificate (the “**Refunding Trustee**”), substantially in the form executed and delivered in connection with the issuance of the State’s General Obligation Bonds, 2015 Refunding Series B, but reflecting details of the transactions contemplated by this Resolution, with such variations as the Authorized Officer executing such agreement, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate (each, a “**Refunding Trust Agreement**”), such execution and delivery to be conclusive evidence of such approval and consultation.

(b) The proceeds derived from the sale of Bonds to be applied to the refunding of the Bonds to be Refunded shall be deposited in one or more trust funds (each, a “**Refunding Trust Fund**”) to be held by the Refunding Trustee under the related Refunding Trust Agreement. There also may be transferred and/or deposited to the Refunding Trust Funds other available moneys as shall be specified in the respective Refunding Trust Agreements.

(c) Each deposit of moneys in the Refunding Trust Funds shall be and constitute an irrevocable deposit with the Refunding Trustee of said moneys in trust solely for the payment of the principal of and redemption premium, if any, and interest on the respective Bonds to be Refunded as provided in subsections (d) and (h) of this Section, and shall be used solely for such purpose except as provided in subsections (e) and (i) of this Section or the respective Refunding Trust Agreement.

(d) Each Series Certificate relating to Bonds issued to refund Bonds to be Refunded shall specify whether such Bonds to be Refunded are to be called for redemption prior to maturity or paid at maturity, and may specify whether any such call for redemption shall be revocable and, with respect to any Bonds to be Refunded that are refunded to maturity, whether

the right is reserved to later call any such Bonds to be Refunded for redemption prior to maturity. Any such reserved right may be sold for such price and upon such other terms and conditions as may be determined by an Authorized Officer.

Each designation of a Bond to be Refunded for redemption prior to maturity, unless initially made revocable, shall be, and is hereby made, irrevocable after the delivery of the respective Bonds to the Purchasers. Upon such delivery, such Bonds to be Refunded shall not be called for redemption in any other amount or on any other date.

(e) The moneys in the Refunding Trust Funds shall be retained as cash or invested in Eligible Securities (defined below) so as to produce funds at least sufficient (A) to pay on the respective optional redemption date of each Bond to be Refunded that is called for redemption prior to maturity, the then applicable redemption price of and interest then due on such Bond to be Refunded, (B) to pay on the maturity date of each Bond to be Refunded that is not called for redemption prior to maturity the amount then due on such Bond to be Refunded, and (C) to pay the interest due on such Bonds to be Refunded on each interest payment date after the date of delivery of the respective Bonds and on and prior to their respective redemption or maturity dates.

“Eligible Securities” means and includes only bonds, notes and treasury bills of the United States, as permitted by Section 9-4-602, Tennessee Code Annotated.

(f) The State shall deposit in the Refunding Trust Funds any amounts that may be necessary for any reason (including but not limited to non-payment or non-timely payment under any Eligible Security) to enable the Refunding Trustee to make the payments specified in clauses (A), (B) and (C) of the first paragraph of subsection (e) of this Section and to make the transfers required by subsection (i) of this Section.

(g) The State shall cause notices of the redemption of the Bonds to be Refunded to be given in accordance with the provisions of (A) the respective resolutions authorizing the issuance thereof and (B) the Refunding Trust Agreements.

(h) Pursuant to the Refunding Trust Agreements, the Refunding Trustee is directed to transfer moneys to the paying agents for the respective Bonds to be Refunded for payment of the principal of and redemption premium, if any, and interest on the respective Bonds to be Refunded when due, from the moneys and obligations deposited in the respective Refunding Trust Funds under such Refunding Trust Agreements. To facilitate such payment, the Refunding Trustee is hereby appointed as an additional paying agent for the Bonds to be Refunded.

(i) Any moneys or securities remaining in a Refunding Trust Fund after the final payment of the respective Bonds to be Refunded, or upon the reservation in the respective Refunding Trust Fund of sufficient moneys for the purposes as provided in subsection (e) of this Section, shall be remitted to the State Treasurer to be disbursed by the State Treasurer and other proper fiscal officers of the State, as provided by law.

(j) The Authorized Officers and other officers, employees and agents of the Funding Board, and other officials and employees of the State including those of the Office of

State and Local Finance of the State, are hereby authorized and directed to take all actions as may be necessary or appropriate to effectuate the transactions contemplated by the Refunding Trust Agreements, including but not limited to (A) executing subscriptions for the purchase of U.S. Treasury Securities—State and Local Government Series or otherwise acquiring securities for deposit in the Refunding Trust Funds, whether prior to or simultaneously with the execution and delivery of the Refunding Trust Agreements or at a later date, (B) causing the Bonds to be Refunded that are called for redemption prior to maturity to be redeemed on their respective redemption dates and (C) causing the principal of and redemption premium, if any, and interest on the Bonds to be Refunded to be paid when due.

SECTION 9. CUSIP Numbers. CUSIP identification numbers will be imprinted on each Bond to be delivered to DTC, but no such number shall constitute a part of the contract evidenced by the particular bond upon which it is imprinted; no liability shall attach to the State or the Funding Board or any officer, employee or agent of either of them, including any paying agent or registrar for the Bonds, by reason of such number or any use made thereof including any use thereof made by the State or the Funding Board or any such officer, employee or any such agent of either of them, or by reason or any inaccuracy, error, or omission with respect thereto, or in such use, and any inaccuracy, error, or omission with respect thereto shall not constitute cause for failure or refusal by the Purchasers to accept delivery of and pay for the respective Bonds in accordance with the terms of its bid or a Bond Purchase Agreement, as the case may be. All expenses in relation to the printing of such numbers on the Bonds will be paid by the State; provided, however, that the CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid by the Purchasers. In addition, the Purchasers shall be responsible for applying for the CUSIP identification numbers.

SECTION 10. Continuing Disclosure. (a) The Secretary or Assistant Secretary of the Funding Board is hereby authorized to execute a Continuing Disclosure Undertaking or Continuing Disclosure Undertakings (each, a “**Continuing Disclosure Undertaking**”) substantially in the form executed and delivered in connection with the issuance of the State’s General Obligation Bonds, 2015 Series A and 2015 Refunding Series B, and as described in the Preliminary Official Statement, with such variations as the signatory thereof, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate, such execution and delivery to be conclusive evidence of such determination and consultation. Execution of the Continuing Disclosure Undertaking as aforesaid and delivery of the same to the Purchasers shall be a condition precedent to the obligations of the Purchasers to purchase the respective Bonds.

(b) The State covenants with the holders from time to time of the Bonds that it will, and hereby authorizes the appropriate officers and employees of the State to, take all action necessary or appropriate to, comply with and carry out all of the provisions of the respective Continuing Disclosure Undertaking as amended from time to time. Notwithstanding any other provision of this Resolution, failure of the State to perform in accordance with any Continuing Disclosure Undertaking shall not constitute a default or an event of default and shall not result in any acceleration of payment of any Bonds, and any rights and remedies provided by this Resolution and applicable law upon the occurrence of such a default or an event of default shall not apply to any such failure, but such Continuing Disclosure Undertaking may be enforced only as provided therein.

SECTION 11. Tax Covenants. The State, through the Funding Board, hereby covenants that it will not use, or permit the use of, any proceeds of the Tax-Exempt Bonds in a manner that would cause the Tax-Exempt Bonds to be subjected to treatment under Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), and applicable regulations thereunder, as each is then in effect, as an “arbitrage bond”, and to that end the State shall comply with applicable regulations under said Section 148. The State further covenants with the registered owners from time to time of the Tax-Exempt Bonds that it will, throughout the term of the Tax-Exempt Bonds and through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Code, comply with the provisions of Sections 103 and 141 through 150 of the Code and all regulations proposed and promulgated thereunder that must be satisfied in order that interest on the Tax-Exempt Bonds shall be and continue to be excluded from gross income for federal income tax purposes under said Section 103.

SECTION 12. Public Hearing. The Assistant Secretary of the Funding Board or her designee is authorized to publish notice of and conduct any public hearing required by Section 147(f) of the Code with respect to any project to be financed by any Tax-Exempt Bonds.

SECTION 13. Resolution a Contract. In consideration of the acceptance of the Bonds by those who shall own the same from time to time and for the benefit of the registered owners of the Bonds, each of the obligations, duties, limitations and restraints imposed upon the State, acting through the Funding Board, by this Resolution shall be deemed to be a covenant between the State and every registered owner of the Bonds, and this Resolution and every provision and covenant hereof shall be deemed to be and shall constitute a contract between the State and the registered owners from time to time of the Bonds.

All terms, provisions, conditions, covenants, warranties and agreements contained in this Resolution shall constitute a valid contractual obligation of the State and, except as provided in the Continuing Disclosure Undertaking, shall inure to the benefit of the registered owners of the Bonds.

SECTION 14. Severability. If any one or more of the covenants, stipulations, promises, agreements or obligations provided in this Resolution on the part of the State, the Funding Board or any officer or employee of either thereof to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, stipulation or stipulations, promise or promises, agreement or agreements, obligation or obligations shall be deemed and construed to be severable from the remaining covenants, stipulations, promises, agreements and obligations herein contained and shall in no way affect the validity of the other provisions of this Resolution.

SECTION 15. Effect of Headings of Sections. The headings of the sections of this Resolution are for convenience of reference only, and shall not affect the meaning, construction or interpretation of this Resolution.

SECTION 16. Repealer. All previous authorizations of general obligation bonds of the State to refund general obligation bonds of the State previously issued, to the extent such refunding bonds have not been issued as of the date of adoption of this Resolution, are hereby

repealed and rescinded. In addition, the resolution adopted by the Members of the Funding Board on February 26, 2015, and entitled the same as this Resolution is hereby repealed.

SECTION 17. Effectiveness of this Resolution. This Resolution shall be in full force and effect from and after its passage.

Adopted this 9th day of June, 2016.

Justin P. Wilson, Secretary
Funding Board of the State of Tennessee

Form of Bonds

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE BOND TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUIRED BY AN AUTHORIZED REPRESENTATIVE OF DTC AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSONS IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNITED STATES OF AMERICA
 STATE OF TENNESSEE
 GENERAL OBLIGATION BOND
 2016 [REFUNDING] SERIES __ [(FEDERALLY TAXABLE)]

Registered R16__-[maturity]-[number] Registered \$_____

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
_____, 2016	____%	_____, ____	880541 ____

Registered Owner: Cede & Co.

Principal Sum:

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 be subject to redemption prior to maturity, 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 on _____, 20__, and semi-annually thereafter on _____ and _____, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to each registered owner of this bond as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective stated due date for such interest. 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 or after _____, shall be subject to redemption prior to their stated maturities at any

time on and after _____, 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.] [at the redemption prices (expressed as percentages of the principal amount or portion thereof to be redeemed) set forth below, plus interest accrued on such principal amount or portion thereof to the date fixed for redemption:

Period During Which Redeemed (Both Dates Inclusive)	Redemption Prices
_____, ____ through _____, ____	____%
_____, ____ through _____, ____	____
_____, ____ and thereafter	____]

[Make-Whole Optional Redemption. The Bonds shall be subject to redemption prior to their stated maturities, at the option of the State, in whole or in part at any time on or after _____ at the Make Whole Redemption Price (as hereinafter defined). The Make Whole Redemption Price is equal to the greater of:

- (a) 100% of the principal amount of the Bonds to be redeemed; or
- (b) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which such Bonds are to be redeemed, discounted on a semi-annual basis to the date on which the Bonds are to be redeemed, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined below) plus ___ basis points (0. __%),

plus in each case accrued and unpaid interest on the Bonds to be redeemed to the redemption date.

The "Treasury Rate" is, as of any redemption date of any Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) or, if such Statistical Release is no longer published, any source of similar market data, that has become publicly available at least five business days prior to such redemption date (excluding inflation indexed securities) most nearly equal to the period from such redemption date to the maturity date of such Bonds; provided, however, that if the period from such redemption date to such maturity date is less than one year, the latest weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year that has become publicly available at least five business days prior to such redemption date shall be used.]

The Make-Whole Redemption Price (and, if necessary, such substitute source of market data) shall be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Funding Board of the State to calculate such redemption price

(the "Calculation Agent"). The determination by the Calculation Agent of the redemption price shall be conclusive and binding on the State and the holders of the Bonds.

The Bonds maturing on _____, ____ and _____, ____ constitute term bonds and shall be subject to mandatory sinking fund redemption prior to their stated maturities on and after _____, ____ and on and after _____, ____, respectively, and by lot within a maturity, in installments of \$5,000 or any integral multiple thereof, at a redemption price equal to the principal amount to be redeemed, plus accrued interest on such principal amount to the date fixed for redemption, in the respective amounts specified pursuant to the resolution of the Funding Board of the State of Tennessee hereinafter mentioned.

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 mail, or delivered by physical or electronic means, to the Registered Owner of this bond at the mail, physical delivery or electronic means address of the Registered Owner as shown in the bond register as kept by the State or 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, a new registered Bond or Bonds of like maturity in authorized denominations.

[If fewer than all of the Bonds of like maturity are called for prior redemption, the particular Bonds or portions of Bonds to be redeemed will be selected by the State Treasurer or an agent of the State designated for such purpose *pro rata* as nearly as practicable in proportion to the principal amounts of the Bonds owned by each registered owner, subject to the authorized denominations applicable to the Bonds. In such event, if a single person or entity is the registered owner of more than one Bond, the particular Bond or Bonds to be redeemed will be determined by the State Treasurer or such agent in such manner as the State Treasurer or such agent in its discretion may deem fair and appropriate.]

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 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 \$_____ of like date, issued under and pursuant to and in full compliance with the Constitution and laws of the State, 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 9, 2016, including as a part thereof a Series Certificate executed and delivered on _____, 2016 (collectively, the "Resolution"), [for public purposes of various State departments and institutions][and][to provide for the payment at maturity of a portion of the State's outstanding general obligation bond anticipation notes constituting commercial paper] [and] [to refund certain outstanding general obligation bonds of the State]. 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 constitute direct general obligations of the State for the payment of the principal and premium, if any, of and interest on which there is pledged the full faith and credit of the State. 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 of the State; 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. The State hereby covenants with the persons who now or may hereafter hold any Bonds 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 as and when due and payable.

[This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Resolution until the certificate of authentication hereon shall have been duly executed by the Paying Agent and Registrar.]

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.

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 Secretary of State, the State Treasurer, the Commissioner of Finance and Administration or the Comptroller of the Treasury 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 [(unless this Bond shall be authenticated by the Paying Agent and Registrar)], 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: _____
Authorized Officer

Countersigned:

By: _____
Authorized Officer

[Certificate of Authentication]

This will certify that this bond is one of the Bonds described in the within-mentioned Resolution.

[PAYING AGENT AND REGISTRAR],
as Paying Agent and Registrar

Date of Authentication:

_____ By: _____]
Authorized Signatory

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.

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 _____, 2016

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
\$200,000,000*
GENERAL OBLIGATION BONDS, 2016 SERIES A
\$ ___*
GENERAL OBLIGATION BONDS, 2016 REFUNDING SERIES B

Dated: Date of Delivery

Due: As shown on inside cover

The Bonds

Interest on the Bonds is payable semi-annually ___ 1 and ___ 1, commencing ___ 1, 2016.

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 ___ are subject to optional redemption by the State on and after ___ at par.

See "The Bonds" herein.



Security

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

Ratings

Fitch: AAA Moody's: Aaa S&P: AAA. 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 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. 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 Bass, Berry & Sims PLC, counsel to the Underwriters. The Bonds are expected to be available through the facilities of The Depository Trust Company on or about _____.

MORGAN STANLEY

BofA Merrill Lynch

Piper Jaffray

Raymond James

____, 2016

*Subject to change

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

STATE OF TENNESSEE

\$200,000,000*

GENERAL OBLIGATION BONDS, 2016 SERIES A

Due	Amount	Interest Rate	Yield	Price	CUSIP** 880541
------------	---------------	----------------------	--------------	--------------	-----------------------

\$ ___*
GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES B

Due	Amount	Interest Rate	Yield	Price	CUSIP** 880541
------------	---------------	----------------------	--------------	--------------	-----------------------

*Subject to change

*Priced to first optional redemption date of _____, at par

**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, Director, Office of State and Local Finance, *Assistant Secretary*
Ann V. Butterworth, Assistant to the Comptroller for Public Finance, *Assistant Secretary*
Kayla Carr, Bond Finance Manager, Office of State and Local Finance
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

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.

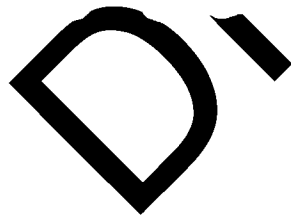


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STATE OF TENNESSEE

\$200,000,000*

GENERAL OBLIGATION BONDS, 2016 SERIES A

\$__*

GENERAL OBLIGATION BONDS, 2016 REFUNDING SERIES B

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 \$200,000,000 General Obligation Bonds, 2016 Series A (the "Series A Bonds"), and \$__ General Obligation Bonds, 2016 Refunding Series B (the "Series B Bonds", and collectively with the Series A 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 __, 2016. The 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, (iii) refund certain outstanding general obligation bonds and (iv) 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".



Description

The Bonds will be dated the date of their delivery. The Series A Bonds will mature as shown on the inside cover page and will bear interest payable semi-annually on __ 1 and __ 1, commencing __ 1, 2016, at the rates per annum as shown on the inside cover page. The Series B Bonds will mature as shown on the inside cover page and will bear interest semi-annually on __ 1 and __ 1, commencing __ 1, 2016. Interest will be payable to registered owners as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceeding the respective stated due date for such interest. The Bonds will be issuable as fully registered bonds in denominations of \$5,000 or integral multiples thereof.

*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 Series A Bonds.

The Series B 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 Series B Bonds. The refunding is being undertaken to realize debt service savings.

Refunded Bonds *

Series	Maturity Date	Par	Redemption Date	Redemption Price

		\$	-	
Total Refunded Bonds		\$	-	



Pursuant to the Bond Resolution authorizing the Bonds, the State Funding Board will enter into a Refunding Trust Agreement with Regions Bank (the “Refunding Trustee”) with respect to the Refunded Bonds. Proceeds of the Series B Bonds and other available monies, if required, will be deposited into a refunding trust fund established under the Refunding Trust Agreement (the “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 Refunding Trust Fund, to pay (i) the redemption prices of the Refunded Bonds on their respective redemption dates and (ii) the interest on the Refunded Bonds due on and prior to such respective 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 Fund 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 Fund for the Refunded Bonds, and of certain yields, from The Arbitrage Group, Inc. (See “VERIFICATION AGENT”).

Upon issuance of the Bonds, the Refunded Bonds will be irrevocably designated 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, 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.

*Subject to change

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:

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

<u>Fiscal Year Ended</u>				
	<u>June 30, 2015*</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Special Taxes	\$ 1,012,030,000	\$ 1,010,572,000	\$ 963,834,000	\$ 944,979,000

*unaudited

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):

	Total Sales and Use Tax Collections (Accrual Basis)	Allocation to Debt Service (Modified Accrual Basis)
June 30, 2015	\$ 7,713,695,000	\$ 54,662,000
June 30, 2014	7,276,443,000	51,634,000
June 30, 2013	7,018,128,000	49,709,000
June 30, 2012	6,884,762,000	48,961,000
June 30, 2011	6,461,461,000	46,027,000

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 2006, 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 (1)	\$ 245,147,639 (2)
(b) State tax revenue allocated for FYE June 30, 2015 to:	
General Fund	\$ 7,782,191,300 (2) (3)
Debt Service Fund	374,100,000 (2) (3)
Highway Fund	<u>706,535,500 (2) (3)</u>
(c) Total of State tax revenue allocated for FYE June 30, 2015	\$ 8,862,826,800
(d) (a) divided by (c) expressed as a percentage (must be no greater than 10%)	2.77%

- (1) 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 Bonds and the refunding of the Refunding Bonds.
- (2) Unaudited.
- (3) Obtained from the State of Tennessee Adopted Budget, Fiscal Year 2016-17. This amount represents the distribution of actual revenue for fiscal year 2014-2015 net of amounts apportioned from the general fund to cities and counties as State shared taxes.

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. The Judiciary and Government Subcommittee of Government Operations met on August 16, 2015 and recommended that legislation be filed during the 2016 Legislative Session to continue the State Funding Board for 8 years with a proposed termination date of June 30, 2024.

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 May 31, 2016 the State had \$1,899,205,000 (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, 2021. CP is not subject to redemption prior to maturity.

As of May 31, 2016, \$245,536,000 (unaudited) principal amount of CP was outstanding under this program. The Series A Bonds will retire approximately \$___ 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.

Outstanding General Obligation Bonded Indebtedness

As of May 31, 2016, there were \$1,899,205,000 (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>
2017	\$ 160,275,000	\$ 80,747,788	\$ 241,022,788							\$ 160,275,000	\$ 80,747,788	\$ 241,022,788
2018	151,580,000	73,567,639	225,147,639							151,580,000	73,567,639	225,147,639
2019	141,265,000	66,944,536	208,209,536							141,265,000	66,944,536	208,209,536
2020	138,280,000	60,773,431	199,053,431							138,280,000	60,773,431	199,053,431
2021	131,540,000	54,645,145	186,185,145							131,540,000	54,645,145	186,185,145
2022	131,790,000	48,583,920	180,373,920							131,790,000	48,583,920	180,373,920
2023	124,180,000	42,703,442	166,883,442							124,180,000	42,703,442	166,883,442
2024	124,665,000	37,597,904	162,262,904							124,665,000	37,597,904	162,262,904
2025	115,390,000	32,607,463	147,997,463							115,390,000	32,607,463	147,997,463
2026	115,270,000	27,825,601	143,095,601							115,270,000	27,825,601	143,095,601
2027	106,545,000	22,989,539	129,534,539							106,545,000	22,989,539	129,534,539
2028	101,975,000	18,546,315	120,521,315							101,975,000	18,546,315	120,521,315
2029	95,460,000	14,370,323	109,830,323							95,460,000	14,370,323	109,830,323
2030	70,605,000	10,545,806	81,150,806							70,605,000	10,545,806	81,150,806
2031	59,410,000	7,660,746	67,070,746							59,410,000	7,660,746	67,070,746
2032	50,080,000	5,044,030	55,124,030							50,080,000	5,044,030	55,124,030
2033	26,865,000	3,303,125	30,168,125							26,865,000	3,303,125	30,168,125
2034	19,860,000	2,205,000	22,065,000							19,860,000	2,205,000	22,065,000
2035	19,860,000	1,212,000	21,072,000							19,860,000	1,212,000	21,072,000
2036	14,310,000	357,750	14,667,750							14,310,000	357,750	14,667,750
	<u>\$1,899,205,000</u>	<u>\$612,231,503</u>	<u>\$2,511,436,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,899,205,000</u>	<u>\$612,231,503</u>	<u>\$2,511,436,503</u>

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* As of June 30, 2016

Authorized and Unissued Bonds

The State had authorized as of May 31, 2016, \$1,649,065,139.96 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 amount, \$643,000,000 is for highway improvements. In addition, \$146,100,000 of the authorized and unissued amount is allocated to the Tennessee transportation infrastructure improvement bond program, which is for the repair, replacement or rehabilitation of bridges. 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. No general obligation bonds or CP have been issued for these purposes since 1977 and the State does not currently anticipate issuing general obligation bonds or CP for these programs; however, the State can give no assurance that this practice will continue.

Rate of Debt Retirement

The following table sets forth the rate of scheduled debt retirement of the State on all outstanding general obligation bonds as of June 30, 2016 excluding the Bonds.

<u>Principal Amount Due Within</u>	<u>Principal Amount</u>	<u>% of Total</u>
5 Years	\$ 722,940,000	38.07%
10 Years	1,334,235,000	70.25%
15 Years	1,768,230,000	93.10%
20 Years	1,899,205,000	100.00%

STATE FINANCES

The Budget Process

The State of Tennessee Budget for the appropriate fiscal year originates in the executive branch with the Governor’s annual budget recommendation to the General Assembly (the “Recommended Budget”). 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 department 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 Recommended Budget 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 Recommended 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. 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 relevant 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 any budget document 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 Recommended Budget.

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:



Fiscal Year Ended	Balance
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	568,000,000 **

* Estimated and unaudited
 **Budgeted

The Reserve is estimated to have increased by \$35.5 million for the fiscal year ending June 30, 2015 and budgeted to increase by an additional \$76.5 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 and June 30, 2016 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 Recommended 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

The fiscal year 2015-2016 Recommended Budget submitted to the General Assembly on February 9, 2015, projected a growth in total taxes of \$328.5 million, or 2.53%, and a growth in the general fund of \$303.2 million, or 3.0%, above fiscal year 2014-2015 estimates. The fiscal year 2015-2016 Budget, adopted by the General Assembly on April 16, 2015 (the "Enacted Budget") recognized a \$27.5 million revenue estimate increase and a \$150 million one-time payment in Franchise and Excise taxes above the projections contained in the Recommended Budget. An additional, smaller one-time payment was received in May. Both one-time payments were the result of one-time events that increased the tax liability for two corporations.

As discussed under “Development of Revenue Estimates” above, the State Funding Board periodically reviews and revises revenue estimates for budgeting purposes. 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 2014-2015</u>		<u>Fiscal Year 2015-2016</u>	
		<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Fiscal Year 2013-2014					
Results					
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%

This consensus recommendation increased the total budgeted revenue estimate by \$37.3 million and reduced general fund taxes by \$37.3 million to reconcile with the fiscal year 2014-2015 Enacted Budget. The fiscal year 2015-2016 Recommended Budget was based on these consensus revenue estimates.

Final action of the fiscal year 2014-2015 budget process included an additional revenue estimate increase above the revised estimate proposed in the fiscal year 2015-2016 Recommended Budget. The increase was \$27.5 million in recurring revenue and \$150.0 million in one-time franchise and excise tax payments, and these were reflected in the fiscal year 2015-2016 Enacted Budget.

The State Funding Board is scheduled to convene in November or 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, July is the twelfth month of fiscal year 2014-2015. Total state tax collections for the twelve months (August through July) were \$605.7 million above the budgeted estimate, and the general fund was over collected by \$552.7 million. The 2015-2016 Enacted Budget recognized a \$27.5 million revenue estimate increase and a \$150 million one-time payment in Franchise and Excise taxes. The four other funds that share tax revenue proceeds were over collected by \$53.0 million. Total tax collections for August, which is the first month of the 2015-2016 accrual fiscal year, were \$19.1 million above the budgeted estimate. The general fund was over collected by \$10.6 million. The four other funds were over collected by \$8.5 million. Collections are unaudited and subject to final accrual adjustments. The Rainy Day Fund balance is estimated to be \$491.5 million at June 30, 2015 and projected to be \$568.0 million at June 30, 2016. See “STATE FINANCES – Reserve for Revenue Fluctuations”.

Fiscal Year 2015-2016 Budget Summary

The fiscal year 2015-2016 Enacted Budget is based on a growth rate in total taxes of 2.53%. General Fund recurring cost increases total \$520.5 million, much of which is used to fund salary and benefits, program and inflationary growth in TennCare, the Basic Education Program, Higher Education and Correction. For the 2015-2016 Enacted Budget to remain balanced, State programs are reduced by an average of 3.18% for a total of \$177.7 million. As enacted, recurring appropriations are funded by recurring revenues. The Rainy Day Fund balance is budgeted to increase to \$568 million after an additional deposit of \$76.5 million. For a further description of the 2015-2016 Enacted Budget, see “Budgetary Sources and Uses” section below.

The capital budgets as amended and approved by the General Assembly for fiscal years 2014-2015 and 2015-2016 are as follows:

	Fiscal Year	
	<u>2014-15</u>	<u>2015-16</u>
State Current Funds	\$ 123,560,000	\$ 135,361,200
Federal Funds	11,823,700	9,872,500
General Obligation Bonds (excl. Hwy. Imp.)	84,100,000	437,600,000
Highway Improvement Bonds	83,500,000	83,800,000
Other Miscellaneous Funds	28,700,000	69,990,500
Facilities Revolving Fund	27,250,000	200,920,000
Total	<u>\$ 358,933,700</u>	<u>\$ 937,544,200</u>

Bonds have not been issued for highway improvements or for the Tennessee transportation infrastructure improvement program since 1977, and there is no current intent to do so; however, there can be no assurance that this practice will continue. Bonds for these purposes 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 1.4 million enrollees consisting of approximately 820,000 children and approximately 580,000 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 2015-2016 enacted TennCare budget is \$10.41 billion, including federal funds, and is 31.2% of the total 2015-2016 Enacted Budget. Excluding federal funds, the cost of the TennCare program is budgeted to be 22.3% 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	46.5

*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 a change in the treatment of Nursing Home Assessment fees as non-recurring because enacted legislation altered the renewal cycle from two years to one year.

In fiscal year 2014-2015, the TennCare Reserve is anticipated to be \$308.9 million and is equal to 9.2% 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.

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Budgetary Sources and Uses of Funds

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

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

	<u>Estimated Budget FY 2014-2015</u>	<u>Estimated Budget FY 2015-2016</u>	<u>Difference</u>
Tax Revenue - Revised Estimate			
Sales and Use Taxes	\$ 7,612,100,000	\$ 7,894,200,000	\$ 282,100,000
Other Taxes - Dept. of Revenue	4,554,300,000	4,616,400,000	62,100,000
Franchise & Excise Taxes Collection ¹	150,000,000	-	(150,000,000)
State Tax Revenue - GF Overcollection ¹	350,000,000	-	(350,000,000)
Other Miscellaneous Revenues	1,938,258,600	1,999,592,500	61,333,900
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	(405,917,400) *	472,290,054 *	878,207,454
Reversion - Overappropriation	177,289,900 *	86,807,800 *	(90,482,100)
Rainy Day Fund Transfer	(35,500,000) *	(76,500,000) *	(41,000,000)
Sub-Total Appropriations	<u>\$ 14,882,831,100</u>	<u>\$ 15,471,490,354</u>	<u>\$ 588,659,254</u>
Federal Funds	\$ 13,184,471,800	\$ 12,979,017,400	\$ (205,454,400)
Current Services and Other Revenues	3,103,434,300	3,258,258,700	154,824,400
Tuition and Student Fees	1,689,782,900	1,732,563,100	42,780,200
Bonds	167,600,000	521,400,000	353,800,000
Total	<u>\$ 33,028,120,100</u>	<u>\$ 33,962,729,554</u>	<u>\$ 934,609,454</u>
* Reserves, Transfers and Reversion ²	\$ (192,127,500)	\$ 482,597,854	\$ 674,725,354

¹ General Fund revenue overcollection and one-time payment of Franchise & Excise Taxes.

² Reserves are funds transferred to the general fund as authorized by the General Appropriations Act. Reserves also includes funds reserved for appropriation in the following fiscal year. Transfers are funds transferred to the general fund for specific purposes. Reversion is the estimated budget surplus remaining at the end of a fiscal year.

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

	<u>Estimated Budget FY 2014-2015</u>	<u>Estimated Budget FY 2015-2016</u>	<u>Difference</u>
General Government	\$ 979,053,700	\$ 1,012,251,300	\$ 33,197,600
Education	9,667,974,100	9,928,063,400	260,089,300
Health and Social Services	15,568,659,400	15,619,047,500	50,388,100
Law, Safety, and Correction	1,677,325,100	1,682,340,554	5,015,454
Resources and Regulation	943,413,400	933,092,200	(10,321,200)
Business and Economic Development	<u>616,564,300</u>	<u>606,094,500</u>	<u>(10,469,800)</u>
Total General Fund	<u>\$ 29,452,990,000</u>	<u>\$ 29,780,889,454</u>	<u>\$ 327,899,454</u>
Transportation	\$ 1,839,885,800	\$ 1,805,134,400	\$ (34,751,400)
Debt Service Requirements	377,714,000	429,855,000	52,141,000
Capital Outlay Program	248,183,700	652,824,200	404,640,500
Facilities Revolving Fund	165,546,600	324,726,500	159,179,900
Cities and Counties - State Shared Taxes	<u>943,800,000</u>	<u>969,300,000</u>	<u>25,500,000</u>
Total State Budget All Programs	<u>\$ 33,028,120,100</u>	<u>\$ 33,962,729,554</u>	<u>\$ 934,609,454</u>

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 (the "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 (the "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 5A "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.

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

The actuary reports may be reviewed at: <http://www.tn.gov/finance/article/fa-accfin-opeb>. The State has contracted with Gabriel Roeder Smith and Company to provide biennial 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 Comprehensive Annual Financial Report (“CAFR”) for fiscal year 2014-2015. For fiscal year 2014-2015, 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.

During the 2015 Legislative Session, the General Assembly enacted Public Chapter 426, which, among other things, established an investment trust or trusts (the "Trust") for the purpose of pre-funding other post-employment benefits accrued by employees of the State, to be paid as they come due in accordance with arrangements between the State, the plan members and their beneficiaries. The trustees (the "Trustees") of the Trust are the Commissioner of Finance and Administration, the chair of the Finance, Ways and Means Committee for the Senate, the chair of the Finance, Ways and Means Committee for the House of Representatives, and the State Treasurer, in his capacity as chair of the board of TCRS. The Trustees must adopt, in writing, an investment policy or policies authorizing how assets in the Trust may be invested. The Trust may invest in any security or investment in which TCRS is permitted to invest; provided, that investments by the Trust shall be governed by the investment policies and guidelines adopted by the trustees. By statute, the state treasurer has the responsibility to invest and reinvest Trust funds in accordance with the policies and guidelines established by the Trustees and to administer the Trust.

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, 2015. 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, 2015. This was the twenty-eight 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, 2016. 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

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 on or before June 30, 2014 have been non-contributory since July 1, 1981. State and higher education employees hired on or after July 1, 2014 became members of a new retirement plan that provides both a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary to the defined benefit plan component of the new plan. The plan provisions of the closed legacy plan and the new 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 hired before July 1, 2014 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 (of which two are non-voting), 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 Speaker House the House of Representatives 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. Pursuant to the funding policy adopted by the Board of Trustees on September 26, 2014, an actuarial valuation will be conducted annually as of each June 30th for both accounting purposes and funding purposes. The last actuarial valuation for accounting purposes was performed as of June 30, 2014, and will be performed each June 30th thereafter. The last valuation for funding purposes was effective July 1, 2013. The next valuation will be as of June 30, 2015 and each succeeding June 30th thereafter. The TCRS Board of Trustees certifies to the Governor each year the amount necessary to fund the Actuarially Determined Contribution (“ADC”) 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 ADC for state and higher education employees. The ADC 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 ADC replaced the term annual required contribution (“ARC”) but ADC is essentially the same as the ARC.

The net pension liability at June 30, 2014 was \$689,948,673 for state and higher education employees. The plan fiduciary net position as a percentage of the total pension liability was 95.11% at June 30, 2014, calculated in accordance with GASB Statement No. 68. Previously, the funded ratio was calculated based on the system’s funding methodology. The funded ratio (actuarial value of assets / actuarial accrued liability) was in excess of 99% for the 2001, 2003, and 2005 valuation dates and 90.93% for 2007. The funded ratio reflected 86.32% in 2009, 88.30% in 2011, and 89.4% in 2013. 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: June 30, 2012, 5.61%; June 30, 2013, 9.92%; June 30, 2014, 16.65%; and June 30, 2015, 3.33%. Improving mortality rates among TCRS retirees also contributed to increased unfunded liabilities.

The amounts and percentages set forth under this caption relating to TCRS 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 that higher education employees exempt from the Federal Fair Labor Standards Act may waive membership in TCRS and elect to participate in the Optional Retirement Program ("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, 2015 there were 497 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. Pursuant to the funding policy adopted by the Board of Trustees on September 26, 2014, an actuarial valuation will be conducted annually each June 30th for both accounting purposes and funding purposes. The purpose of

the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate. By prior practice, an actuarial valuation was performed every other year. The latest valuation was effective July 1, 2013 for funding purposes. An actuarial valuation for accounting purposes was performed June 30, 2014. 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. It has been TCRS' practice to conduct an actuarial audit every ten years, the last audit being completed effective with the 2009 valuation. The new funding policy continues this practice. 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.). Pursuant to the funding policy adopted by the TCRS Board of Trustees, an actuarial experience study will be 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 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 valuations for funding purposes (as of July 1, 2013), for accounting purposes (as of June 30, 2014), 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.

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, 2015 the membership in TCRS was as follows:

	Active Employees	Inactive Employees or Beneficiaries Currently Receiving Benefits	Inactive Employees Entitled to but not yet Receiving Benefits	Total
State Employees and Higher Education Employees	57,132	49,509	35,945	142,586
Teachers	76,379	46,162	30,376	152,917
Total	133,511	95,671	66,321	295,503

General Plan Provisions

Legacy pension system for employees hired on or before June 30, 2014

The description under this section applies to employees hired on or before June 30, 2014; the legacy pension plan 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 U.S. 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 on or before June 30, 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 on or after July 1, 2014 as a component of the New Plan

Employees hired on or after July 1, 2014 became members of a new 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 defined 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 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 U.S. 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 partially financially responsible for state and higher education employees in the new plan, separate accounting and actuarial records are maintained for this group. Teachers are required to contribute five percent of salary. Since LEAs are partially financially responsible for teachers in the new plan, separate accounting and actuarial records are maintained for this teacher group.

Cost Controls and Unfunded Liability Controls of the New Plan

The new 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 the actuarial rate for the defined benefit exceeds 4%, then a series of 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 new plan was designed to control the actuarial unfunded liability. If an actuarial valuation determines that the unfunded liability of the new 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 new 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.

The actual allocation of assets and the policy target range at June 30, 2015 are:

<u>Asset Class</u>	<u>Policy Range</u>	<u>Actual Allocation</u>
North American Stock	25-50%	36.7%
Domestic Bonds	20-60%	26.6%
Inflation Indexed Bonds	0-15%	6.0%
Short-term Securities	0-10%	1.0%
International Bonds	0-10%	0.0%
International Stocks	5-25%	18.3%
Private Equity & Strategic Lending	0-10%	4.9%
Real Estate	0-10%	6.5%
		<u>100.0%</u>

The historical annualized rates of return (net of fees) on TCRS investments as of June 30, 2015 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>
3.33%	9.84%	10.85%	6.45%	5.46%	7.09%	7.64%

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

<u>Year Ended</u> <u>June 30</u>	<u>Rate of Return</u>
2015	3.33%
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%

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 ten 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 for Funding Purposes

The funding policy adopted by the TCRS Board of Trustees provides that the June 30, 2015 actuarial valuation will be conducted based on the following: entry-age normal actuarial method; 10-year smoothing of assets within a 20% corridor; and level dollar amortization of unfunded liabilities over a closed period not to exceed 20 years. As of June 30, 2015, net investment gains of approximately \$412 million are being deferred. The June 30, 2015 actuarial valuation will establish the employer contribution rate for the period July 1, 2016 through June 30, 2017.

The actuarial valuation at July 1, 2013 utilized the frozen initial liability method for determining the employer contribution rate for the period July 1, 2014 through June 30, 2016. 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.

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, 2015, and 2016 actuarial valuations. The next experience study will be conducted in 2016 with the resulting assumptions being utilized in the 2017, 2018, 2019, and 2020 actuarial valuations.

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 GASB Pension Standards
At June 30, 2014*
(dollars expressed in thousands)**

Group	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
State & Higher Education Employees	\$13,430,683	\$14,120,632	\$689,949	95.11%	\$2,463,848	28.00%
Teachers	\$21,214,637	\$21,198,387	(\$16,250)	100.08%	\$3,925,132	(0.41)%

Historical Fiduciary Net Position

The available historical fiduciary net position for the last ten years for the state employee and higher education group and the teacher group are shown in the following table:

**Historical Fiduciary Net Position
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*	\$13,430,683	\$21,214,637
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

**Historical Funding Progress Based on Fiduciary Net Position
State and Higher Education Employees
At June 30
(dollars expressed in thousands)**

<u>Valuation Year **</u>	<u>Plan Fiduciary Net Position</u>	<u>Total Pension Liability</u>	<u>Net Pension Liability (Asset)</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>	<u>Covered Payroll</u>	<u>Net Pension Liability (Asset) as a % of Covered Employee Payroll</u>
2014*	\$13,430,683	\$14,120,632	\$689,949	95.11%	\$2,463,848	28.00%
2013	11,827,560	13,822,969	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

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

** 2014 - Based on GASB 67 and 68 requirements; Years prior to 2014 - Based on funding methodology; Annual reporting beginning with 2014.

**Historical Funding Progress Based on Fiduciary Net Position
Teachers
At June 30
(dollars expressed in thousands)**

Valuation Year**	Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability (Asset)	Plan Fiduciary Net Position as a % of the Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
2014*	\$21,214,637	\$21,198,387	(16,250)	100.08%	\$3,925,132	(0.41)%
2013	18,658,230	20,300,591	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)**

Fiscal Year	Cash Inflows		Cash Out Flows		Net Cash Flows
	Contributions	Interest and Dividends	Benefits and Refunds	Administrative Cost	
2014*	\$ 959,366	\$ 779,544	\$ 1,778,888	\$ 6,784	\$(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.

** 2014 - Based on GASB 67 and 68 requirements; Years prior to 2014 - Based on funding methodology; Annual reporting beginning with 2014.

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
Based on July 1, 2013 Actuarial Valuation
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

Actual benefit payments for FY 2013 totaled \$1,923,742,000, for FY 2014 totaled \$2,060,890,000, and for FY 2015 totaled \$2,190,199,700.

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. The essential elements of the funding policy are:

- 1 Annual actuarial valuations will be performed beginning June 30, 2015.
- 2 The actuarial valuation method will be entry age normal.
- 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.

Actuarially Determined Contributions (previously called Annual Required Contributions) and Percentage Contributed (dollars expressed in thousands)

Year Ended June 30	State & Higher Education Employees		Teachers	
	Actuarially Determined Contribution	Percentage Contributed	Actuarially Determined Contribution	Percentage Contributed
2014	\$410,608	100%	\$348,539	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 2013 actuarial valuation established 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".

During early 2011, management of TCRS engaged the retirement system's actuarial firm to conduct a review to determine an indication 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.

Other Retirement Programs

Optional Retirement Program in Higher Education

Employees in higher education who are exempt from the Federal Fair Labor Standards Act may waive membership in the TCRS and elect to participate in the Optional Retirement Program ("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 on or before June 30, 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 on or after July 1, 2014 will contribute 5% of salary to the ORP. By statute, employer contributions for employees hired on or after July 1, 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 \$101.3 million for the year ended June 30, 2015. There were 11,586 ORP participants at June 30, 2015.

Deferred Compensation Plan for State Employees, Higher Education Employees and Teachers

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, 2015, 59,319 state and higher education employees made contributions to the 401(k) plan and 4,357 employees made contributions to the 457 plan. Employer contributions totaled \$34.0 million while employees contributed \$111.4 million. Additionally 8,399 teachers made contributions to the 401(k). Employer contributions for those teachers totaled \$10.2 million while employees contributed \$3.2 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 New Retirement Plan

One component of the New Retirement 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 New Retirement Plan

One component of the New Retirement 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.

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 fiscal year ending June 30, 2015.

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 May 31, 2016, TLDA had \$3,824,000 (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 May 31, 2016, the Authority had outstanding \$____ (unaudited) aggregate principal amount of higher educational facility bonds, \$____ (unaudited) of higher educational facility revolving credit facility, and \$____ (unaudited) aggregate principal amount of QZAB bonds. As of May 31, 2016, 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 \$124,213,338 (unaudited) was the book value of assets on deposit as of April 30, 2016.

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 September 30, 2015, was \$1,837,905,000 (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 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 September 30, 2015, the amount of outstanding bonds was \$1,469,108 (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" or 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, 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, 2014 and in April of 2015. Before April of 2015, 82 provisions were in maintenance, 5 provisions were in partial maintenance, and 49 provisions were not yet in maintenance. In April of 2015, 14 more provisions came into 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. It alleged 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, as of January 1, 2015 Tennessee is once again 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 is in the preliminary stage, 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 believes that it has strong legal and factual arguments that should prevail in a trial of the case. 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 June 29, 2015, the Supreme Court issued an order granting the State of Mississippi’s motion to file its action. The State filed its answer on September 14, 2015. The Supreme Court will appoint a Special Master to hear the case.

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.); *BNSF Railway Co., et al. v. Tenn. Dept. of Revenue* (6th Cir. Ct. App.; U.S. Dist. Ct. M.D. Tenn.). These two groups of cases will control the outcome of a number of lawsuits that have been filed by railroads alleging that Tennessee taxes on their purchases of diesel fuel discriminate against them in violation of the federal Railway Revitalization and Regulatory Reform Act (the “4-R Act”). Illinois Central and related cases challenge Tennessee’s former taxing regime under which fuel purchases by railroads, but not trucking companies, were subject to the sales tax, even though trucking companies paid a separate, and generally higher, diesel-fuel tax. The federal district court initially ruled for the railroads, but that decision has now been remanded by the Sixth Circuit for further consideration in light of the decision of the United States Supreme Court in a very similar case from Alabama, in which Tennessee authored an amicus brief on behalf of 15 states and in which the Supreme Court ruled that a diesel-fuel tax on trucks could be sufficient justification for their exemption from sales tax on their purchases of diesel fuel. The district court has scheduled proceedings on remand over the next several months. Refunds of approximately \$150 million are at issue in these lawsuits and related potential claims.

Concurrently, the BNSF Railway case challenges the tax presently imposed by the Tennessee Transportation Fuel Equity Act, which places railroads under the same tax obligations as trucking companies. BNSF contends that the new law singles out railroads and violates the 4-R Act. The federal district court denied the railroads’ motions for preliminary injunctions but stayed collection pending appeal. The Sixth Circuit has now affirmed the decision that the new Tennessee law does not single out railroads but has remanded to the district court for further consideration of the railroads’ claims of discrimination as compared to their ostensible competitors, water carriers, which are exempt from the new act but still pay sales tax on their fuel purchases. The

railroads have filed Petitions for Panel Rehearing which are pending. Collection of the tax under the current law remains stayed.

In light of the principles announced in the U.S. Supreme Court and Sixth Circuit decisions, the State believes it will eventually prevail in all of these cases, that the Chancery Court refund actions will be dismissed, and that it will be able to collect the amounts presently being withheld by the railroads and paid into escrow under a private arrangement of the railroad companies. However, there is no guarantee of such a result.

Insurance Premiums Tax Cases (Tennessee Claims Commission). There are currently pending 15 cases, all initially filed in the Tennessee Claims Commission and some later appealed, in which various Pennsylvania insurance companies doing business in Tennessee challenged the application of Tennessee's retaliatory insurance premiums tax. These cases, in total, seek refunds of \$27,706,545, plus interest. Similar cases were also filed by a number of New York insurance companies. The Claims Commission and the Tennessee Court of Appeals ruled in favor of the State in both sets of cases. The applications of the New York companies to appeal to both the Tennessee Supreme Court and the United States Supreme Court were denied, so those cases have been concluded in the State's favor, with only minimal refunds being paid on minor issues. The Tennessee Supreme Court, however, granted the Pennsylvania companies' applications for permission to appeal, and, following briefing and argument, the State is awaiting the outcome of those cases.

Allergan, Inc. v. Roberts; Astellas Pharma US, Inc. v. Roberts; Aventis Pharmaceuticals, Inc. v. Roberts; Gilead Sciences, Inc. v. Roberts (Davidson Co. Chancery Ct.). These are franchise and excise tax cases in which pharmaceutical companies challenge the calculation of the receipts factor of their apportionment formulas and seek "look-through" variances to attribute their sales to the locations of the ultimate consumers rather than to Tennessee where their sales occur. The outcome of all of these cases is likely to be controlled by the five pending Allergan cases, which seek refunds of over \$10 million, the lead case of which is set for argument in the trial court in December, 2015. Astellas Pharma and Gilead Sciences, which seek refunds of \$1.8 million and \$32.5 million, respectively, and Aventis, which challenges an unpaid assessment of over \$19 million, are not as far along in the litigation process. Thus, a total of almost \$64 million, plus interest, is directly at stake in these cases.

Wright Brothers Construction Company, Inc. v. TDOT (Tennessee Claims Commission). Wright Brothers Construction Company ("Wright Brothers") has filed a breach of contract claim against The Tennessee Department of Transportation ("TDOT") in the Tennessee Claims Commission. In December of 2011, Wright Brothers was awarded a construction contract to widen US 27 in north Chattanooga. Wright Brothers claims that in constructing retaining walls on either side of the road, it encountered differing site conditions and incurred additional costs in performing the work. Wright Brothers is seeking in excess of \$14 million. TDOT has rejected the claim, stating that the conditions encountered should have been expected from a review of the geotechnical information provided. TDOT filed a Motion for Partial Dismissal of some of claims, and in January 2015, such Motion was partially granted. Discovery is now ongoing with regard to the remaining claims. TDOT has hired an outside contractor to assist in the management and production of the approximately 250,000 documents involved in this case. TDOT has received the plaintiff's expert reports and will soon serve the plaintiffs with TDOT's expert reports. The parties also intend to attempt mediation.

Hamilton County Bd. Of Ed., Bradley County Bd. Of Ed., McMinn County Bd. Of Ed., Marion County Bd. Of Ed., Grundy County Bd. Of Ed., Coffee County Bd. Of Ed., and Polk County Bd. Of Ed. v. Haslam, Ramsey, Harwell, McQueen, Rolston, Edwards, Chancey, Roberts, Pearre, Tucker, Hartgrove, Johnson, and Troutt, (Davidson Co. Chancery Ct.). The State was served with this suit on March 24, 2015. Seven local school boards brought suit against the Governor, the Speakers of both Houses, the Commissioner of Education, and the members of the State Board of Education, all in their official capacities only, alleging that the State has (1) violated the holdings of the Tennessee Supreme Court in three previous education funding cases, as well as the Tennessee Constitution and (2) violated State education funding statutes. The essential claim of the Complaint is that the State does not adequately fund public education in Tennessee. The Complaint seeks a declaratory judgment holding that (a) the current system of funding public education violates Article XI, Section 12, of the Tennessee Constitution, and fails to provide a free public education, (b) the State educational funding system fails to provide Tennessee students with substantially equal educational opportunities, (c) the General Assembly must appropriate sufficient funds to fully implement the recommendations of the State's Basic Education Program ("BEP") Review Committee dated November 1, 2014, and (d) the General Assembly must include in the BEP funding formula the cost components associated with the rigorous academic standards imposed by the General Assembly.

The Plaintiffs have filed a Motion for the Court to certify the case as a class action and include every county school system in the State in the class. That motion has been argued, but the Court is holding the matter in abeyance pending further briefing and argument. The Defendants have filed a Motion to Dismiss for Failure to State a Claim upon which Relief can be Granted. No hearing date has been set on that Motion.

The Defendants believe that they have strong legal and factual arguments and that they should prevail ultimately on the merits. However, there is no guarantee of such a result. The Plaintiffs' Amended Complaint claims "funding shortfalls" ranging from \$135 million to \$700 million. Therefore, if the Plaintiffs were to succeed in their lawsuit, the State could possibly have to increase its funding for education by as much as \$700 million.

Shelby County Bd. Of Ed., v. Haslam, Ramsey, Harwell, McQueen, Rolston, Edwards, Chancey, Roberts, Pearre, Tucker, Hartgrove, Johnson, and Troutt, and Heyburn, (Davidson Co. Chancery Ct.). The State was served with this lawsuit on August 31, 2015. The Shelby County Board of Education brought this suit against the Governor, the Speakers of both Houses, the Commissioner of Education, and the members of the State Board of Education, as well as the Board's Executive Director, all in their official capacities only, alleging that the State has (1) violated the holdings of the Tennessee Supreme Court in three previous education funding cases, as well as the Tennessee Constitution, and (2) violated State education funding statutes. The essential claim of the Complaint is that the State does not adequately fund public education in Tennessee. The Complaint in this case goes beyond the relief sought in the Hamilton County case above, which seeks full funding of the existing BEP funding formula. In this case, Shelby County seeks a declaratory judgment holding that (a) some portions of the BEP program are inadequate and therefore in violation of Article XI, Section 12, of the Tennessee Constitution; thus, the State is failing to provide a free public education, (b) the State educational funding system fails to provide Tennessee students with substantially equal educational opportunities and (c) the General Assembly must appropriate sufficient funds to implement a revised version of the current school funding formula that includes, for example, pre-school education programs.

The Defendants believe that they have strong legal and factual arguments and that they should prevail ultimately on the merits. However, there is no guarantee of such a result. Since the Plaintiff's Complaint includes in its prayer for relief a major revamp and expansion of the existing BEP funding scheme, including a prayer for relief that seeks funding for an entirely new program – pre-school programs – the total relief sought in this case is likely significantly higher than the Hamilton County case, above. However, it is impossible at this time to put an accurate dollar figure on any increase in funding for education that the State would have to make if the Plaintiffs were to prevail in this lawsuit. In addition, it should be noted this case and the Hamilton County case, above, overlap to a significant extent, i.e., they both seek funding changes to the existing system that would affect every other State school system. Consequently, the relief sought in the two cases should not simply be added together to determine the State's potential liability in these matters.



TAX MATTERS

Federal Tax Matters

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 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 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 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 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 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. Bond Counsel expresses no opinion on 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 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 Bonds in order that interest on the 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 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 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 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 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 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 Bonds.

Prospective owners of the 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 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.

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. Amortized bond premium also reduces the owner's cost basis, and 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 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 Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the 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 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 Bonds under Federal or state law or otherwise prevent beneficial owners of the 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 Bonds. For example, the Fiscal Year 2016 Budget proposed by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest." The net effect of such a proposal, if 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 the issue date.

Prospective purchasers of the 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 have agreed to purchase (i) the Series A Bonds from the State at an aggregate purchase price of \$340,397,932.95 (consisting of the par amount of the Series A Bonds plus an original issue premium of \$54,378,753.25, less an underwriters' discount of \$255,820.30) and (ii) the Series B Bonds from the State at an aggregate purchase price of \$111,521,994.30 (consisting of the par amount of the Series B Bonds plus an original issue premium of \$14,121,514.45, less an underwriters' discount of \$89,520.15). The obligation of the Underwriters to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement between the Underwriters and the State.

Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Piper Jaffray & Co, one of the Underwriters of the Bonds, and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds.

The Bonds may be offered and sold by the Underwriters 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 Agreement and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Series B Bonds and the obligations deposited under the Refunding Trust Agreement was examined by The Arbitrage Group, Inc. Such computations were based solely upon assumptions and information supplied by PFM on behalf of the State. The Arbitrage Group, Inc. 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 Aaa, AA+, and AAA, 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 the Electronic Municipal Market Access (“EMMA”) system 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).

The State periodically provides investor updates of certain information to persons who have notified the Office of State and Local Finance of a desire to receive such information. The State is not required under any undertaking to provide such information and provides no assurance that it will continue to do so.



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 the State 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.

DRAFT

STATE OF TENNESSEE

By: */s/ Justin P. Wilson*
Comptroller of the Treasury;
Secretary of the Funding Board of
the State of Tennessee

FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (“CAFR”) of the State, including the audited Basic Financial Statements, for the fiscal year ended June 30, 2015 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 2015 CAFR and certain prior year CAFRs are posted on the State’s website at <http://www.tennessee.gov/finance/article/fa-accfin-cafr>.

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-Proprietary 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, 2015 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 2015 CAFR and certain prior year CAFRs are posted on the State’s website at <http://www.tennessee.gov/finance/article/fa-accfin-cafr>.

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
2016 SERIES A, \$____
2016 REFUNDING SERIES B \$____**

Dear Sirs:

At your request we have examined into the validity of \$____ General Obligation Bonds, 2016 Series A, and \$____ General Obligation Bonds, 2016 Refunding Series B (collectively, 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 ____, 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, 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.

(2) Under existing statutes and court decisions, (i) interest on the 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 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 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 Bonds from gross income under Section 103 of the Code. Under the Code, noncompliance with such requirements may cause the interest on the 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) 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) and (3) 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 Bonds, or under state or local tax law, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement dated October 27, 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,

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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.

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 November 18, 2015 by the State of Tennessee (the “State”) in connection with the issuance of the State’s \$286,275,000 aggregate principal amount of General Obligation Bonds, 2015 Series A, and \$97,490,000 aggregate principal amount of General Obligation Bonds, 2015 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 September 15, 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, to the extent and in the form presented in the State’s most recent Comprehensive Annual Financial Report

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 October 27, 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, 2016, 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) 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.

(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

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NOTICE OF SALE

Dated November 7, 2012

State of Tennessee

General Obligation Bonds

\$140,000,000* 2012 Series B
\$30,545,000* 2012 Refunding Series C (Federally Taxable)

Electronic Bids, as Described Herein
Will Be Accepted Until

9:30 a.m. Central Standard Time**
for Series B Bonds

and

10:00 a.m. Central Standard Time**
for Series C Bonds

on November 14, 2012

- * Subject to change both before and after award as provided herein.
** Subject to change before the sale date and time as provided herein.
-

CONTACTS

Issuer

State of Tennessee

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BiDCOMP™/PARITY®

Customer Service

(212) 849-5021

i-Deal Prospectus

Customer Service

(212) 849-5024

NOTICE OF SALE
Dated November 7, 2012

State of Tennessee
General Obligation Bonds
\$140,000,000* 2012 Series B
\$30,545,000* 2012 Refunding Series C (Federally Taxable)

NOTICE IS HEREBY GIVEN that electronic bids will be received at the place, on the date and until the time specified below for the purchase of all, but not less than all, of (i) the \$140,000,000* General Obligation Bonds, 2012 Series B (the “Series B Bonds”) and/or (ii) separately, the \$30,545,000* General Obligation Bonds, 2012 Refunding Series C (Federally Taxable) (the “Series C Bonds” and, together with the Series B Bonds, the “Bonds”), to be issued by the State of Tennessee (the “State”).

DATE: Wednesday, November 14, 2012**

TIME: Series B Bonds: 9:30 a.m. Central Standard Time**
Refunding Series C Bonds: 10:00 a.m. Central Standard Time**

ELECTRONIC BIDS: May be submitted only through **PARITY**[®] as described below.
No other form of bid or provider of electronic bidding services will be accepted.

The Bonds are more particularly described below and in the Preliminary Official Statement dated November 7, 2012 (the “Preliminary Official Statement”) relating to the Bonds, available at the i-Deal Prospectus website, www.i-dealprospectus.com. For assistance in obtaining the Preliminary Official Statement from this website, contact i-Deal Prospectus' customer service or Public Financial Management, Inc. See the Contacts page of this Notice of Sale.

Prior to accepting bids, the State reserves the right to change the aggregate or annual principal amounts of the Bonds being offered or the terms of the Bonds, and to postpone the sale to a later date or time or to cancel the sale. Notice of a change, postponement or cancellation will be announced via Thomson Municipal Market Monitor News Service at the website address www.tm3.com not later than 12:00 Noon, Central Standard Time, on the day preceding the bid opening or, in the case of a cancellation, at any time prior to the receipt of bids. If the sale is postponed, a later public sale may be held on such date and at such time as shall be announced at least 48 hours in advance via Thomson Municipal Market Monitor News Service at the website address www.tm3.com. Consideration of the bids and the award of the Bonds will be completed within six (6) hours after the bids are received. The State also reserves the right to adjust the principal amount of the Bonds offered and to cancel the sale of the Bonds after the bids are opened as further described herein under “ADJUSTMENTS OF AMOUNTS AND MATURITIES AFTER AWARD”.

[Bidding Parameters Tables follow]

* Subject to change both before and after award as provided herein.

** Subject to change before the sale date and time as provided herein.

\$140,000,000 SERIES B BONDS BIDDING PARAMETERS TABLE *

Description	Page No.	Description	Page No.
DATES		REDEMPTION	
Dated Date: Delivery Date	4	Optional On or after October 1, 2020 at 100%	4
Delivery Date: On or about December 4, 2012	9	Mandatory: Each sinking fund installment date for term bonds at 100%	4
INTEREST		PRICING	
Interest Payment Dates: April 1 and October 1	4	Max. Reoffering Price:	
First Interest Payment: April 1, 2013	4	Each Maturity: 120.0%	6
Coupon Multiples: 1/8 or 1/20 of 1%	6	Aggregate: 115.0%	6
Maximum Coupon: 5.00%	6	Min. Reoffering Price:	
Minimum Coupon: N.A.	6	Each Maturity: 98.5%	6
Maximum TIC: N.A.	6	Aggregate: 99.0%	6
PRINCIPAL		PROCEDURAL	
Adjustments-Increases:		Bid Submission: PARITY® only	1, 6-7
Each Maturity: + 20%		All or None?: Yes	6
Aggregate: + 15%	7	Bid Award Method: Lowest TIC	7
Adjustments-Decreases:	7	Bid Confirmation: Fax signed PARITY® screen	6
Each Maturity: -20%		Award of Bid: Within 6 hours	1,7
Aggregate: -15%		Good Faith Deposit: \$1,400,000	8
Term Bonds: One or more on or after October 1, 2021(sinking fund installments must equal amortization)	7		
	7		
	4		

PRINCIPAL MATURITIES

Year (October 1)	Principal Amount **
2013 NC	\$7,000,000
2014 NC	7,000,000
2015 NC	7,000,000
2016 NC	7,000,000
2017 NC	7,000,000
2018 NC	7,000,000
2019 NC	7,000,000
2020 NC	7,000,000
2021 T	7,000,000
2022 T	7,000,000

Year (October 1)	Principal Amount **
2023 T	\$7,000,000
2024 T	7,000,000
2025 T	7,000,000
2026 T	7,000,000
2027 T	7,000,000
2028 T	7,000,000
2029 T	7,000,000
2030 T	7,000,000
2031 T	7,000,000
2032 T	7,000,000

NC: Non-callable.

T: May be designated as sinking fund installments for term maturity or maturities.

* If numerical (excluding page numbers) or date references contained in the body of this Notice of Sale conflict with the Bidding Parameters Table, the body of this Notice of Sale shall control. Consult the body of this Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

** Subject to change both before and after award as provided herein.

\$30,545,000 REFUNDING SERIES C BONDS BIDDING PARAMETERS TABLE *

Description	Page No.	Description	Page No.
DATES		REDEMPTION	
Dated Date: Delivery Date	4	Optional: None	5
Delivery Date: On or about December 4, 2012	9	Mandatory: Each sinking fund installment date for term bonds at 100%	4
INTEREST		PRICING	
Interest Payment Dates: May 1 and November 1	4	Max. Reoffering Price:	
First Interest Payment: May 1, 2013	4	Each Maturity: 110.0%	6
Coupon Multiples: 1/8 or 1/20 of 1%	6	Aggregate: 105.0%	6
Maximum Coupon: 4.00%	6	Min. Reoffering Price:	
Minimum Coupon: N.A.	6	Each Maturity: 98.5%	6
Maximum TIC: N.A.	6	Aggregate: 99.0%	6
PRINCIPAL		PROCEDURAL	
Adjustments-Increases:		Bid Submission: PARITY® only	1, 6-7
Each Maturity: + 15%	7	All or None?: Yes	6
Aggregate: +10%	7	Bid Award Method: Lowest TIC	7
Adjustments-Decreases:		Bid Confirmation: Fax signed PARITY® screen	6
Each Maturity: Unlimited	7	Award of Bid: Within 6 hours	1,7
Aggregate: Unlimited	7	Good Faith Deposit: \$300,000	8
Term Bonds: One or more on or after May 1, 2013 (sinking fund installments must equal amortization)	7		
	4		

PRINCIPAL MATURITIES

Year (May 1)	Principal Amount**
2013 T	\$460,000
2014 T	805,000
2015 T	810,000
2016 T	810,000
2017 T	820,000
2018 T	8,980,000
2019 T	10,865,000
2020 T	6,995,000

T: May be designated as sinking fund installments for term maturity or maturities.

* If numerical (excluding page numbers) or date references contained in the body of this Notice of Sale conflict with the Bidding Parameters Table, the body of this Notice of Sale shall control. Consult the body of this Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

** Subject to change both before and after award as provided herein.

THE BONDS

General

The Bonds will be dated as of the Dated Date shown on the Bidding Parameters Tables, will be issued in denominations of \$5,000 or integral multiples thereof, and will bear interest from their date at the annual rate or rates specified by the successful bidder, subject to the limitations specified below, payable as shown on the respective Bidding Parameters Table. Interest payable on the Bonds will be computed on the basis of a 360-day year of twelve (12) 30-day months. The Bonds must meet the criteria shown on the respective Bidding Parameters Table on a maturity and aggregate basis.

The Bonds will mature on the month and day, in the years and in the principal amounts shown on the respective Bidding Parameters Table as either serial bonds or as term bonds with sinking fund installments as described under “Designation of Term Bonds; Mandatory Sinking Fund Redemption” below, subject to change before the sale date and time as provided above and after award as provided in “ADJUSTMENTS OF AMOUNTS AND MATURITIES AFTER AWARD” below.

Designation of Term Bonds; Mandatory Sinking Fund Redemption

Bidders for the Series B Bonds and for the Series C Bonds may, at their option, combine consecutive principal amounts payable on or after the date indicated on the respective Bidding Parameters Table as maturities that may be designated as sinking fund installments for one or more term bonds bearing interest at the same rate. Each such term bond will be subject to mandatory sinking fund redemption commencing on the principal payment date of the first year which has been combined to form such term bond and continuing on the principal payment date in each year thereafter until the stated maturity date of such term bond, which will be the last year combined to form such term bond. The amount redeemed in any year will be equal to the principal amount for such year as set forth in the amortization schedule for such Bonds shown in the respective Bidding Parameters Table, subject to change before the sale date and time as provided above and after award as provided in “ADJUSTMENTS OF AMOUNTS AND MATURITIES AFTER AWARD” below. Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Bonds of the same series and maturity.

Optional Redemption

The Series B Bonds maturing on or before October 1, 2020 will not be subject to optional redemption prior to their respective maturity dates. The Series B Bonds maturing on or after October 1, 2021, may be redeemed prior to their respective maturity dates at the option of the State on and after October 1, 2020, in whole or in part at any time at the redemption price of 100% of the principal amount of the Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date. Series B Bonds which are designated to be term bonds as described in “Designation of Term Bonds; Mandatory Sinking Fund Redemption” above shall be subject to mandatory sinking fund redemption as described therein.

The Series C Bonds will not be subject to optional redemption prior to their maturity date. Series C Bonds which are designated to be term bonds as described in “Designation of Term Bonds; Mandatory Sinking Fund Redemption” above shall be subject to mandatory sinking fund redemption as described therein.

AUTHORITY AND SECURITY

The Bonds are being issued under and pursuant to the Constitution and laws of the State, including Title 9, Chapter 9, Tennessee Code Annotated, all as more fully described in the Preliminary Official Statement relating to the Bonds. The Bonds will be 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. See the Preliminary Official Statement for a description of additional security for the Bonds and other related matters.

FORM AND PAYMENT

The Bonds will be issued in fully registered book-entry only form, and a bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York (“DTC”), registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed to evidence ownership of the Bonds, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC and its participants. Principal of, premium, if any, and interest on the Bonds will be payable by the State to DTC or its nominee as registered owner of the Bonds. Transfer of principal, premium, if any, and interest payments to the beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The State will not be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Beneficial owners will be entitled to receive Bond certificates only under the limited circumstances described in the Preliminary Official Statement.

BIDDING PROCEDURE; CONFIRMATION OF BID

Only electronic bids submitted via PARITY[®] will be accepted. No other provider of electronic bidding services will be accepted. No bid delivered in person or by facsimile directly to the State will be accepted. Bidders are permitted to submit bids for (i) the Series B Bonds, and/or (ii) separately the Series C Bonds during the respective bidding time period, provided they are eligible to bid as described under “ELIGIBILITY TO BID”.

Each electronic bid submitted via PARITY[®] for the purchase of the Bonds shall be deemed an offer to purchase such Bonds in response to this Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the State. The successful bidder must confirm the details of such bid by a signed PARITY[®] Bid Form delivered by fax to (615) 741-5986 no later than one hour after being notified by the State of being the winning bidder, the original of which must be received by the Director of State and Local Finance of the State on the following business day at the address shown on the Contacts page of this Notice of

Sale. Failure to deliver this confirmation does not relieve the bidder of its obligation to complete the purchase of the Bonds bid for.

ELECTRONIC BIDDING

The use of PARITY[®] electronic bidding shall be at the bidder's risk and expense, and the State shall have no liability with respect thereto. The State is using electronic bidding as a communications medium and PARITY[®] is not acting as the State's agent.

If any provisions of this Notice of Sale conflict with information provided by PARITY[®], this Notice of Sale shall control. The State is not bound by any advice or determination of PARITY[®] as to whether any bid complies with the terms of this Notice of Sale. The time as maintained by PARITY[®] shall constitute the official time with respect to all bids submitted.

By submitting a bid for Bonds, a prospective bidder represents and warrants to the State that such bidder's bid for the purchase of such Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of such Bonds.

ELIGIBILITY TO BID

The State does not have a registration requirement for prospective bidders. However, bidders submitting electronic bids must be contracted customers of the BidCOMP Competitive Bidding System and should promptly contact PARITY[®] directly for information about PARITY[®], including its rules and fees, and becoming a contracted customer. (See the Contacts page of this Notice of Sale.) By contracting with BidCOMP[™], a prospective bidder is not obligated to submit a bid in connection with the sale.

CONTENTS OF BID, INTEREST RATES AND BID PRICES

Bidders may bid for (i) the Series B Bonds, and/or (ii) by separate bid, for the Series C Bonds. Bidders must bid for all maturities of any Bonds bid for. Each bid must specify (1) an annual rate of interest for each maturity of Series B Bonds or Series C Bonds bid for, (2) the reoffering price or yield of each such maturity and (3) a dollar purchase price for all of the Bonds bid for.

Each bid for the Bonds must meet the criteria shown on the respective Bidding Parameters Table. Any number of interest rates may be named, but the Bonds of the same series and maturity must bear interest at the same single rate.

Each bidder for the Series B Bonds must specify, as part of its bid, the prices or yields at which a substantial amount (i.e., at least 10%) of the Series B Bonds of each maturity bid for will be offered and are expected to be sold to the public. The reoffering price for each maturity of the Series B Bonds may not be more than the Maximum Reoffering Price – Each Maturity percentage, or less than the Minimum Reoffering Price – Each Maturity percentage, shown on the respective Bidding Parameters Table times the principal amount of the Series B Bonds of that maturity. Such initial reoffering prices, among other things, will be used by the State to calculate

the final aggregate principal amount and principal amount of each maturity of the Series B Bonds, as well as the yield for federal tax purposes of such Series B Bonds, but will not be used in computing the bidders' true interest cost.

As promptly as reasonably possible after bids for the respective Bonds are received, the State will notify the successful bidder for such Bonds that it is the apparent winner. Upon such notice, such bidder must confirm to the State the initial reoffering prices and Underwriter's discounts by maturity for the Bonds bid for. The initial reoffering prices and Underwriter's discount for each maturity confirmed to the State will be used by the State to calculate the final annual principal amounts. See "ADJUSTMENTS OF AMOUNTS AND MATURITIES AFTER AWARD" below. Reoffering prices for the Series B Bonds also must be confirmed as described under "REOFFERING PRICE CERTIFICATE" below.

AWARD

The State expects to award the Series B Bonds and the Series C Bonds to the respective winning bidder within six (6) hours of the respective bid opening. Bids may not be withdrawn prior to the award. Unless all bids for the Series B Bonds and the Series C Bonds are rejected, the respective Bonds will be awarded to the bidder whose bid complies with this Notice of Sale and results in the lowest true interest cost ("TIC") to the State. The TIC (expressed as an annual rate) will be determined for each of the Series B Bonds and the Series C Bonds as being twice the semi-annual discount rate, compounded semi-annually, which, when applied against principal of and interest on the respective Bonds as due, will equate the sum of such discounted payments to the aggregate purchase price for such Bonds, as provided by the bidder on the PARITY[®] Bid Form. The TIC shall be calculated from the Dated Date of the Bonds, which for this purpose shall be the delivery date specified on the Bidding Parameters Tables. If two or more bidders offer to purchase the Series B Bonds or the Series C Bonds at the same lowest TIC (rounded to six (6) places after the decimal point), such Bonds may be apportioned between such bidders if it is agreeable to each of such bidders, and if apportionment is not acceptable to such bidders, the State reserves the right to award such Bonds to one of such bidders. There will be no auction.

ADJUSTMENTS OF AMOUNTS AND MATURITIES AFTER AWARD

The aggregate principal amount of the Bonds of each series and the principal amount of each maturity of such Bonds are subject to adjustment by the State after the award of such Bonds to the successful bidder. Changes to be made after the award will be communicated to the successful bidder therefor directly by 10:00 a.m., Central Standard Time, on the day following the sale.

The State may increase or decrease the aggregate principal amount of the Series B Bonds or the Series C Bonds, or the aggregate principal amount of any maturity thereof by no more than the individual maturity or aggregate principal percentages shown in the respective Bidding Parameters Table from the respective amounts bid on. The State will consult with the successful bidder for the respective Bonds before adjusting the amount of any maturity of such Bonds; however, the State reserves the sole right to make adjustments within the limits described above.

Adjustments within the limits described above will not relieve the purchasers from their obligation to purchase all of the respective Bonds, assuming all other conditions of this Notice of Sale have been satisfied by the State.

In the event that the principal amount of any maturity of the Series B Bonds or the Series C Bonds is revised after the award, the interest rate and reoffering price for each maturity and the Underwriter's discount on the Series B Bonds or the Series C Bonds, respectively, shall be held constant. The "Underwriter's discount" shall be the difference between the dollar purchase price submitted by the bidder for the purchase of all of the respective Bonds bid for and the total dollar price at which all of such Bonds will be offered to the public, calculated from information provided by the bidder, divided by the number of such Bonds. (The number of Bonds equals the par amount of Bonds divided by 1,000.)

RIGHT OF REJECTION

The State reserves the right, in its discretion, to reject any and all bids and to waive any irregularity or informality in any bid.

RIGHT OF CANCELLATION

The successful bidder for any Bonds will have the right, at its option, to cancel its obligation to purchase if the State fails to deliver such Bonds within 60 days from the date of sale, and in such event the successful bidder will be entitled to the return of an amount equal to the good faith deposit but without any additional liability to the State.

GOOD FAITH DEPOSIT

The successful bidder for the Series B Bonds and for the Series C Bonds is required to submit the good faith amount shown in the respective Bidding Parameters Table (the "Good Faith Amount") to the State in the form of a wire transfer in federal funds, as instructed by the State's Financial Advisor, not later than two hours after the verbal award is made. If such wire transfer deposit is not received by the State by that time, the bid of such apparent winning bidder may be rejected and the State may direct the next lowest bidder(s) for the respective Bonds to submit a good faith deposit and thereafter may award the sale of such Bonds to them. The cover bidder shall hold its bid constant until two hours after the initial verbal award is made or, if earlier, the time the apparent winning bidder's good faith deposit is received, as advised by the State's Financial Advisor.

In the event that the original apparent winning bidder does not comply with the good faith deposit requirements and another bidder complies with the good faith deposit requirements as described herein, or in the event no bidder complies with the good faith deposit requirements as described herein, the original apparent winning bidder is obligated to promptly pay to the State, as liquidated damages for its failure to timely comply with the terms of this Notice of Sale and of its bid, a sum equal to the greater of (i) the difference between the true interest cost of the original apparent winner and of the ultimate winner, or (ii) the Good Faith Amount, plus in each case reasonable attorney's fees and expenses. ***Submission of a bid to purchase Bonds shall constitute acknowledgement and acceptance of the terms of the good faith deposit requirements, including liquidated damages, as provided herein.***

The good faith deposits so wired will be deposited by the State until the delivery of the respective Bonds, at which time the good faith deposits will be applied against the purchase price of such Bonds or the good faith deposit will be retained by the State as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Bonds in compliance with the terms of the Notice of Sale and of its bid. No interest on the good faith deposits will be paid by the State. The balance of the purchase price must be wired in federal funds to the account specified by or on behalf of the Funding Board, simultaneously with delivery of such Bonds.

REOFFERING PRICE CERTIFICATE

The successful bidder for the Series B Bonds will be required to confirm to the State, by a certificate satisfactory to the State in form and substance and dated the date of and delivered simultaneously with delivery of the Series B Bonds, the reoffering prices to the public (excluding bond houses, brokers or similar persons or organization acting in the capacity of underwriters or wholesalers) at which a substantial amount (i.e. at least 10%) of the Series B Bonds of each maturity were sold and the maturities of the Series B Bonds less than 10% of which were sold to the public, if any.

PRELIMINARY OFFICIAL STATEMENT AND FINAL OFFICIAL STATEMENT

The Preliminary Official Statement comprises the “deemed final” Official Statement for purposes of Rule 15c2-12 of the Securities and Exchange Commission and, when amended to reflect, among other things, the actual amount of the Bonds sold, the interest rates specified by the successful bidders and the prices or yields at which the successful bidders will reoffer the Bonds to the public, will constitute a “Final Official Statement” (as defined in Rule 15c2-12) with respect to the Bonds. No more than seven business days after the date of the sale, the State will provide without cost to the successful bidder for the Series B Bonds up to 150 copies of the final Official Statement and to the successful bidder for the Series C Bonds up to 150 copies of the final Official Statement. If Bonds are awarded to a syndicate, the State will deliver final Official Statements only to the entity submitting the successful bid, which shall be responsible for distributing copies of the final Official Statement among the participating underwriters.

The State will deliver to the purchasers of the Bonds certificates of officials of the State, dated the date of delivery of the Bonds, stating that as of the sale date and at the time the Bonds are delivered, (i) the information and statements, including financial statements, of or pertaining to the State contained in the Official Statement were and are correct in all material respects; (ii) insofar as the State and its affairs, including its financial affairs, are concerned, the Official Statement did not and does not 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) insofar as the descriptions and statements, including financial data, of or pertaining to other governmental bodies, nongovernmental bodies, and their respective activities contained in the Official Statement are concerned, such descriptions, statements, and data have been obtained from sources believed by the State to be reliable, and the State has no reason to believe that they are untrue or incomplete in any material respect.

DELIVERY AND PAYMENT

Delivery of the Bonds will be made by the State to DTC in book-entry only form, in New York, New York, on or about the Delivery Date shown in the Bidding Parameters Tables, or such other date agreed upon by the State and the successful bidder. Payment for Bonds must be made in Federal Funds or other funds immediately available to the State at the time of delivery of such Bonds. Any expenses incurred in providing immediate funds, whether by transfer of Federal Funds or otherwise, will be borne by the purchaser. The cost of printing Bonds, if any, will be borne by the State.

CUSIP NUMBERS

It is anticipated that CUSIP numbers will be printed on the Bonds, but neither failure to print such numbers on any Bonds nor any error with respect thereto will constitute cause for a failure or refusal by the purchasers thereof to accept delivery of and pay for the Bonds. The policies of the CUSIP Service Bureau will govern the assignment of specific numbers to the Bonds. The successful bidder will be responsible for applying for and obtaining CUSIP numbers for the Bonds promptly upon award of the bid. Subject to the foregoing, successful bidders may obtain a single CUSIP number for each maturity of all the Series B Bonds and the Series C Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds will be paid for by the State; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers will be the responsibility of and will be paid for by the successful bidder.

BLUE SKY

The State has not taken any action relating to the requirements of the securities or “blue sky” laws of any jurisdiction with respect to the offer and sale of the Bonds. Certain jurisdictions may have filing requirements which must be satisfied prior to any offer or sale of the Bonds.

CONTINUING DISCLOSURE

In order to assist bidders in complying with Rule 15c2-12, the State will execute and deliver a written Continuing Disclosure Undertaking to provide annual financial information, operating data and notices of certain events. A description of the Continuing Disclosure Undertaking is set forth in the Preliminary Official Statement and will be set forth in the final Official Statement. Execution and delivery of the Continuing Disclosure Undertaking will be a condition precedent to the obligation of the successful bidder to take up and pay for the Bonds.

LEGAL OPINIONS

The legal opinions of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the State, with respect to the Bonds of each series will be furnished in reasonable quantity to the successful bidders for such Bonds without cost to the successful bidder for the respective series. For the proposed forms of such opinions, see the Preliminary Official Statement.

ADDITIONAL INFORMATION

Additional information may be obtained from either the Director of Bond Finance of the State or the State's Financial Advisor. See the Contacts page of this Notice of Sale.

STATE OF TENNESSEE

By: *Justin P. Wilson*
Comptroller of the Treasury and Secretary
of the State Funding Board, State of
Tennessee

STATE OF TENNESSEE

\$286,275,000

GENERAL OBLIGATION BONDS, 2015 SERIES A

\$97,490,000

GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES B

BOND PURCHASE AGREEMENT

October 27, 2015

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, 2015 Series A, in the original aggregate principal amount of \$286,275,000 (the "2015 Series A Bonds"), at an aggregate purchase price of \$340,397,932.95 (the "2015 Series A Purchase Price"), representing the aggregate principal amount of the 2015 Series A Bonds, plus a reoffering premium of \$54,378,753.25, less Underwriters' discount of \$255,820.30, and (ii) General Obligation Bonds, 2015 Refunding Series B, in the original aggregate principal amount of \$97,490,000 (the "2015 Series B Bonds" and, together with the 2015 Series A Bonds, the "Bonds"), at an aggregate purchase price of \$111,521,994.30 (the "2015 Series B Purchase Price" and, together with the 2015 Series A Purchase Price, the "Purchase Price"), representing the aggregate principal amount of the 2015 Series B Bonds, plus a reoffering premium of \$14,121,514.45, less Underwriters' discount of \$89,520.15. 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 November 18, 2015, 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 October 22, 2015 (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 its date 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.munios.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 (7) business days after the date of this Purchase Agreement, fifty (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.munios.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 (1) 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 September 15, 2015 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 2015 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 2015 Series A Bonds.
3. The net proceeds from the sale of the 2015 Series B Bonds will be applied to the: (i) refunding of the Issuer's outstanding General Obligation Bonds, 2009 Series A, dated May 6, 2009, maturing May 1, 2028 and May 1, 2029, and General Obligation Bonds, 2010 Series A, dated October 27, 2010, maturing May 1, 2019 through May 1, 2023, inclusive, May 1, 2025, May 1, 2027 and May 1, 2028 (collectively, the "Series B Refunded Bonds"); and (ii) payment of certain costs of issuance of the 2015 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) ninety (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 twenty-five (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, 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 (the "Securities Act"), and the Resolution is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act");
 - 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; (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 Representative that the Bonds have been rated not less than "Aaa", "AA+" and "AAA" respectively, by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Service ("S&P") and Fitch Ratings ("Fitch"), 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 for the Bonds

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 The Arbitrage Group, Inc. 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 any of the Bonds which, in the reasonable opinion of the Underwriters, materially adversely affects the market for one or more series of the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriters of one or more series 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, the Exchange Act or the Trust Indenture Act; 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, or that the Resolution is not exempt from qualification under or other requirements of the Trust Indenture Act, 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, 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, S&P or 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, 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 Purchase 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
16th Floor, James K. Polk Building
505 Deaderick Street
Nashville, Tennessee 37243-0273
Attention: Director of State and Local Finance
Facsimile: 615-741-5986

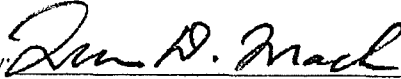
Morgan Stanley & Co. LLC
440 South LaSalle St.
One Financial Place, 37th Floor
Chicago, IL 60605
Attention: Mr. William Mack
Facsimile: 312-291-5753

- 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]

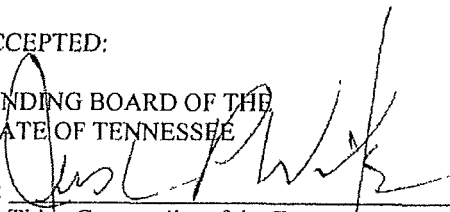
Very truly yours,

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

By: 
Name: William Mack
Title: Executive Director

ACCEPTED:

FUNDING BOARD OF THE
STATE OF TENNESSEE

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

Date: October 27, 2015

Time: 3:51 PM, central 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.
Raymond James & Associates, Inc.

APPENDIX II

To

Bond Purchase Agreement

\$286,275,000

GENERAL OBLIGATION BONDS, 2015 SERIES A

Maturity Date	Amount	Rate	Yield	Price
8/1/2016	\$14,310,000	2.000%	0.200%	101.263
8/1/2017	\$14,310,000	4.000%	0.500%	105.926
8/1/2018	\$14,315,000	5.000%	0.720%	111.434
8/1/2019	\$14,315,000	5.000%	0.910%	114.857
8/1/2020	\$14,315,000	5.000%	1.120%	117.724
8/1/2021	\$14,315,000	5.000%	1.330%	120.088
8/1/2022	\$14,315,000	5.000%	1.530%	122.023
8/1/2023	\$14,315,000	5.000%	1.760%	123.241
8/1/2024	\$14,315,000	5.000%	1.900%	124.755
8/1/2025	\$14,315,000	5.000%	2.010%	126.235
8/1/2026	\$14,315,000	5.000%	2.140%	124.935 C
8/1/2027	\$14,315,000	5.000%	2.250%	123.847 C
8/1/2028	\$14,315,000	5.000%	2.360%	122.771 C
8/1/2029	\$14,315,000	5.000%	2.450%	121.898 C
8/1/2030	\$14,315,000	5.000%	2.520%	121.225 C
8/1/2031	\$14,315,000	5.000%	2.590%	120.556 C
8/1/2032	\$14,315,000	5.000%	2.650%	119.986 C
8/1/2033	\$14,310,000	5.000%	2.700%	119.513 C
8/1/2034	\$14,310,000	5.000%	2.750%	119.043 C
8/1/2035	\$14,310,000	5.000%	2.800%	118.575 C

C=Yield to call date of August 1, 2025

Optional Redemption.

At the option of the Issuer, the 2015 Series A Bonds maturing on or after August 1, 2026 are subject to redemption prior to their stated maturities, from any monies that are available to the Issuer for such purpose, at any time on and after August 1, 2025 as a whole, or in part from time to time in any order of maturity determined by the Issuer, at a redemption price of par, together with accrued interest to the redemption date.

\$97,490,000
GENERAL OBLIGATION BONDS, 2015 REFUNDING SERIES B

Maturity Date	Amount	Rate	Yield	Price	
2/1/2016	\$1,000,000	5.000%	0.080%	100.997	
8/1/2018	\$8,300,000	4.000%	0.720%	108.762	
8/1/2019	\$8,330,000	5.000%	0.910%	114.857	
8/1/2020	\$8,410,000	5.000%	1.120%	117.724	
8/1/2021	\$8,490,000	5.000%	1.330%	120.088	
8/1/2022	\$8,575,000	5.000%	1.530%	122.023	
8/1/2024	\$8,660,000	5.000%	1.900%	124.755	
8/1/2026	\$8,755,000	5.000%	2.140%	124.935	C
8/1/2027	\$22,915,000	3.000%	2.500%	104.281	C
8/1/2028	\$14,055,000	4.000%	2.540%	112.482	C

C=Yield to call date of August 1, 2025

Optional Redemption.

At the option of the Issuer, the 2015 Series B Bonds maturing on or after August 1, 2026 are subject to redemption prior to their stated maturities, from any monies that are available to the Issuer for such purpose, at any time on and after August 1, 2025 as a whole, or in part from time to time in any order of maturity determined by the Issuer, at a redemption price of par, together with accrued interest to the redemption date.

2015B 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 November 18, 2015

**State of Tennessee
General Obligation Bonds
2015 Refunding Series B**

REFUNDING TRUST AGREEMENT
State of Tennessee
General Obligation Bonds
2015 Refunding Series B

This Refunding Trust Agreement (the "Agreement") dated and effective as of November 18, 2015, 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 March 6, 2009, including as a part thereof the Series Certificate dated May 6, 2009, authorized thereby, the State has heretofore issued its General Obligation Bonds, 2009 Series A (the "2009A Prior Bonds");

WHEREAS, pursuant to a resolution adopted by the Funding Board on September 20, 2010, including as a part thereof the Series Certificate dated October 27, 2010, authorized thereby, the State has heretofore issued its General Obligation Bonds, 2010 Series A (the "2010A Prior Bonds" and, collectively with the 2009A Prior Bonds, the "Prior Bonds");

WHEREAS, pursuant to a resolution adopted by the members of the Funding Board on September 15, 2015, including as a part thereof the Series Certificate dated November 18, 2015, 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 \$97,490,000 principal amount of General Obligation Bonds, 2015 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 \$111,350,143.28 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. (a) There is hereby created and established with the Refunding Trustee a special and irrevocable trust fund designated the "State of Tennessee General Obligation Bonds, 2015B 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.

(b) The State hereby directs the Refunding Trustee to (i) purchase, and the Refunding Trustee agrees to purchase, on November 18, 2015, from Credit Suisse Securities (USA) LLC, with \$111,349,419.39 of the amount specified in Section 1 hereof, the Eligible Securities described in Exhibit B hereto, and (ii) retain initially uninvested, as cash, \$723.89 of the amount specified in Section 1 hereof, and to deposit such Eligible Securities and cash in the Refunding Trust Fund.

(c) 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".

(d) 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.

(e) 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.

(f) 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 The Arbitrage Group, Inc., 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 (a) 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).

(b) 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.

(c) 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. (a) 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.

(b) 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. (a) 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.

(b) 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. (a) 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 2009A Refunded Bonds on May 1, 2017, at a redemption price of 100.0% of their principal amount, and

(ii) the 2010A 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. (a) 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. 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.

(b) 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. (a) 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. (a) 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.

(b) If any provision of this Agreement shall be held or deemed to be or shall, if 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.

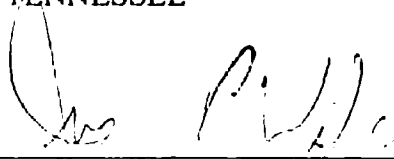
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IN WITNESS WHEREOF, the parties have each executed or caused to be executed this Agreement by their duly authorized officers.

REGIONS BANK

FUNDING BOARD OF THE STATE
OF TENNESSEE

By: 
Name: Paul Williams
Title: Vice President

By: 
Name: Justin P. Wilson
Title: Secretary

[Signature Page of 2015B Refunding Trust Agreement]

EXHIBIT A

REFUNDED BONDS

General Obligation Bonds, 2009 Series A (the "2009A Refunded Bonds")

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2028	\$14,575,000	4.250%	880541 LP0
2029	<u>14,575,000</u>	4.375	880541 LQ8
	<u>\$29,150,000</u>		

General Obligation Bonds, 2010 Series A (the "2010A Refunded Bonds")

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2019	\$9,325,000	4.000%	880541 NZ6
2020	9,325,000	4.000	880541 PA9
2021	9,325,000	4.000	880541 PB7
2022	9,325,000	4.000	880541 PC5
2023	9,325,000	4.000	880541 PD3
2025	9,325,000	4.000	880541 PF8
2027	9,325,000	4.000	880541 PH4
2028	<u>9,325,000</u>	4.000	880541 PJ0
	<u>\$74,600,000</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	TNote	04/30/2016	\$1,706,000	2.625%	0.198751%	101.092051	\$1,724,630.39	\$2,214.52	\$1,726,844.91
2	TNote	10/31/2016	1,728,000	1.000	0.375632	100.591838	1,738,226.96	854.51	1,739,081.47
3	TNote	04/30/2017	30,886,000	0.875	0.505964	100.532625	31,050,506.56	13,364.13	31,063,870.69
4	TNote	10/31/2017	1,244,000	1.875	0.650331	102.369729	1,273,479.43	1,153.43	1,274,632.86
5	TNote	04/30/2018	75,854,000	0.625	0.805960	99.561718	75,521,545.57	23,443.89	75,544,989.46
			\$111,418,000				\$111,308,388.91	\$41,030.48	\$111,349,419.39

EXHIBIT C-1

Notice of Redemption

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

Notice is hereby given to the holders of the outstanding State of Tennessee, General Obligation Bonds, 2009 Series A, dated May 6, 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, 2017 (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>
2028	\$14,575,000	4.250%	880541 LP0
2029	<u>14,575,000</u>	4.375	880541 LQ8
	<u>\$29,150,000</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.

* 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

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 _____, 2017.

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, 2010 Series A
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee, General Obligation Bonds, 2010 Series A, dated October 27, 2010, 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>
2019	\$9,325,000	4.000%	880541 NZ6
2020	9,325,000	4.000	880541 PA9
2021	9,325,000	4.000	880541 PB7
2022	9,325,000	4.000	880541 PC5
2023	9,325,000	4.000	880541 PD3
2025	9,325,000	4.000	880541 PF8
2027	9,325,000	4.000	880541 PH4
2028	<u>9,325,000</u>	4.000	880541 PJ0
	<u>\$74,600,000</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

* 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.

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, 2009 Series A
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee General Obligation Bonds, 2009 Series A, dated May 6, 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, 2017, 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 September 15, 2015, 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 (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2028	\$14,575,000	4.250%	880541 LP0
2029	<u>14,575,000</u>	4.375	880541 LQ8
	<u>\$29,150,000</u>		

Dated: _____, 2015.

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 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 D-2

Notice of Refunding and Financial Defeasance

To the Owners of
State of Tennessee
General Obligation Bonds, 2010 Series A
Listed Below

Notice is hereby given to the holders of the outstanding State of Tennessee General Obligation Bonds, 2010 Series A, dated October 27, 2010, 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 September 15, 2015, 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 (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number*</u>
2019	\$9,325,000	4.000%	880541 NZ6
2020	9,325,000	4.000	880541 PA9
2021	9,325,000	4.000	880541 PB7
2022	9,325,000	4.000	880541 PC5
2023	9,325,000	4.000	880541 PD3
2025	9,325,000	4.000	880541 PF8
2027	9,325,000	4.000	880541 PH4
2028	<u>9,325,000</u>	4.000	880541 PJ0
	<u>\$74,600,000</u>		

Dated: _____, 2015.

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 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 E-1

Specimen 2009A Refunded Bonds

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

Registered
R2009A-28-1

Registered
\$14,575,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
May 6, 2009	4.250%	May 1, 2018	880541LP0
REGISTERED OWNER:	Cede & Co.		
PRINCIPAL SUM:	Fourteen Million Five Hundred Seventy-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 November 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 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 or after May 1, 2018, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2017, 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.

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

Registered
R2009A-29-1

Registered
\$14,575,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
May 6, 2009	4.375%	May 1, 2017	880541LQ8
REGISTERED OWNER:	Cede & Co.		
PRINCIPAL SUM:	Fourteen Million Five Hundred Seventy-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 November 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 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 payments legal tender for public and private debts.

The bonds of the issue of which this bond is one (the "Bonds") maturing on or after May 1, 2018, shall be subject to redemption prior to their stated maturities at any time on and after May 1, 2017, 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 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 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 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 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 \$291,500,000 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 March 6, 2009, including as a part thereof a Series Certificate executed and delivered on May 6, 2009 (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 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]

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.

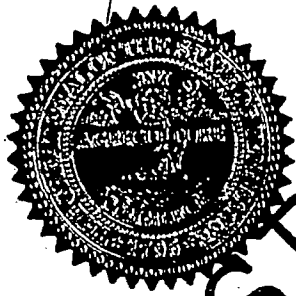
STATE OF TENNESSEE

(SEAL)

By: *[Signature]*
Authorized Officer

Countersigned:

By: *[Signature]*
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:

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.

EXHIBIT E-2

Specimen 2010A Refunded Bonds

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-19-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2019	880541 NZ6

Registered Owner: Cede & Co.

Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-20-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2020	880541 PA9

Registered Owner: Cede & Co.

Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-21-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2021	880541 PB7
Registered Owner: Cede & Co.			
Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-22-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2022	880541 PC5
Registered Owner: Cede & Co.			
Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-23-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2023	880541 PD3
Registered Owner: Cede & Co.			
Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-25-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2025	880541 PF8
Registered Owner: Cede & Co.			
Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
STATE OF TENNESSEE
GENERAL OBLIGATION BOND
2010 SERIES A

Registered
R10A-27-1

Registered
\$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2027	880541 PH4

Registered Owner: Cede & Co.

Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 its agent as of the 45th calendar day preceding the redemption date. Any notice of optional

UNITED STATES OF AMERICA
 STATE OF TENNESSEE
 GENERAL OBLIGATION BOND
 2010 SERIES A

Registered
 R10A-28-1

Registered
 \$9,325,000

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
October 27, 2010	4.000%	May 1, 2028	880541 PJ0

Registered Owner: Cede & Co.

Principal Sum: Nine Million Three Hundred Twenty-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, 2011, at the Interest Rate per annum specified above calculated on the basis of a 30-day month and a 360-day year, to the Registered Owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding the respective due date. 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 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, together with interest accrued on such principal amount or portion thereof to the redemption date.

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 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:

If fewer than all of the Bonds of like maturity are called for prior redemption, the particular Bonds or portions of Bonds to be redeemed will be selected by the State Treasurer or an agent of the State designated for such purpose pro rata as nearly as practicable in proportion to the principal amounts of the Bonds owned by each registered owner, subject to the authorized denominations applicable to the Bonds. In such event, the particular Bonds to be redeemed will be determined by the State Treasurer or such agent in such manner as the State Treasurer or such agent in its discretion may deem fair and appropriate.

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 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 \$186,505,000 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 September 20, 2010, including as a part thereof a Series Certificate executed and delivered on October 27, 2010 (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 heretofore issued 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 9-9-208, 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.

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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 P. [Signature]*
Authorized Officer

Countersigned:

By: *[Signature]*
Authorized Officer



SPECIAL

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.

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated and made as of November 18, 2015, by the State of Tennessee (the “State”) in connection with the issuance of the State’s \$286,275,000 aggregate principal amount of General Obligation Bonds, 2015 Series A, and \$97,490,000 aggregate principal amount of General Obligation Bonds, 2015 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 September 15, 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:

- 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, to the extent and in the form presented in the State’s most recent Comprehensive Annual Financial Report

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 October 27, 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) 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.

(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).

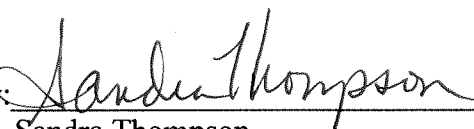
(b) The obligations of the State to comply with the provisions of this Undertaking shall be enforceable by any holder of outstanding Bonds; however, the holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance,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