

**TENNESSEE STATE FUNDING BOARD**  
**JUNE 27, 2019**  
**AGENDA**

1. Call meeting to order
2. Consideration for approval of State Funding Board minutes from the May 9, 2019, meeting
3. Report from the Department of Economic and Community Development (ECD) for approval of funding for the following projects:
  - **Ebm-papst, Inc. – Johnson City (Washington County)**  
FastTrack Economic Development Grant \$ 800,000
  - **SmileDirectClub, LLC/Access Dental Lab, LLC – Nashville & Antioch (Davidson County)**  
FastTrack Economic Development Grant \$ 3,500,000  
FastTrack Job Training Assistance \$ 6,550,000
  - **Western Express, Inc. – Nashville (Davidson County)**  
FastTrack Economic Development Grant \$ 1,300,000
  - **TBA**  
FastTrack Job Training Assistance \$ 773,500
4. Presentation and consideration for approval of the Tennessee Housing Development Agency's Schedule of Financing for Fiscal Year 2019-2020
5. Consideration for approval of the Resolution certifying Special Revenues as required by Section 9-9-104(b), Tennessee Code Annotated
6. Consideration and acceptance of Tennessee Consolidated Retirement System (TCRS) affirmation of Standby Commercial Paper Agreement
7. Consideration and approval of revisions to the State Pooled Investment Fund Investment Policy

8. Report from the Comptroller's Office on requests for approval of plans of balloon indebtedness
9. Public hearing on and approval of Tennessee State Funding Board Guidelines – SEC Disclosures of Financial Obligations and Events of Default by Public Entities
10. Consideration and approval of amended Debt Management Policy
11. Consideration and approval of a “Resolution Authorizing and Providing for the Issuance and Sale of General Obligation Bonds of the State of Tennessee” and delegation of authority to the Comptroller to sell and fix the details of the bonds
12. Consideration and approval of a “Resolution Allocating Funds to Defray a Portion of the Cost of Highway Bridge Construction Projects and to Cancel Authorized Bonds”
13. Consideration and approval of a “Resolution Certifying and Authorizing the Allocation of Funds to the Sinking Fund for the 2019-2020 Fiscal Year”
14. Consideration and approval of a “Resolution Allocating Funds to Defray a Portion of the Cost of Highway Construction Projects and to Cancel Authorized Bonds”
15. Consideration and approval of a “Resolution Authorizing the Issuance of General Obligation Bonds of the State of Tennessee”
16. Adjourn meeting

**TENNESSEE STATE FUNDING BOARD**  
**May 9, 2019**

The Tennessee State Funding Board (the “Board”) met on Wednesday, May 9, 2019, at 1:05 p.m., in the Cordell Hull Building, 1st Floor, House Hearing Room II, Nashville, Tennessee. The Honorable Justin Wilson, Comptroller, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee  
The Honorable David Lillard, Treasurer

The following members were absent:

The Honorable Bill Lee, Governor  
Commissioner Stuart McWhorter, Department of Finance and Administration

Seeing a physical quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the April 11, 2019 meeting. Mr. Hargett made a motion to approve the minutes. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Allen Borden, Deputy Commissioner of Business, Community and Rural Development, Tennessee Department of Economic and Community Development (“ECD”), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the “FastTrack Report to State Funding Board” (the “Report”). Mr. VanderMeer reported that, as of the date of the last Board meeting on April 11, 2019, the FastTrack balance was \$217,988,858.55. Since that time, \$3,170,750.00 in funds were deobligated and returned to the FastTrack program; \$11,272,125.91 in new grants had been approved and \$526,877.39 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$209,360,605.25 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$170,325,324.28, resulting in an uncommitted FastTrack balance of \$39,035,280.97. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$2,099,900.00, and if these projects were approved, the uncommitted balance would be \$36,935,380.97, and the total commitments would be \$172,425,224.28, which represented 82.4% of the FastTrack balance.

Mr. Borden then presented the following FastTrack projects:

- **Titan Medical Manufacturing, LLC – Lexington (Henderson County)**

FastTrack Economic Development Grant	\$ 750,000.00
FastTrack Infrastructure Development Grant	\$ 149,900.00
  
- **Gestamp Chattanooga, LLC – Chattanooga (Hamilton County)**

FastTrack Job Training Assistance Grant	\$ 450,000.00
FastTrack Economic Development Grant	\$ 750,000.00

The Board received in their packets signed letters, FastTrack checklists, and incentive acceptance forms signed by Mr. Rolfe. Mr. Wilson inquired if the information provided in the ECD packets was true and correct and Mr. Borden responded affirmatively. Mr. Wilson also inquired if the companies that had signed the incentive acceptance forms fully understood the agreements and Mr. Borden responded affirmatively.

Mr. Hargett inquired as to why Gestamp Chattanooga, LLC had two different job creation commitments for their project, 90 new jobs tied to the FastTrack Job Training Assistance Grant and 110 new jobs tied to the FastTrack Economic Development Grant. Mr. Borden responded that the project was broken into two portions because each portion was attached to a contract entered into by Gestamp Chattanooga, LLC with an original equipment manufacturer.

Mr. Hargett further clarified that the 90 new jobs were separate from the 110 new jobs. Mr. Borden responded in the affirmative.

Mr. Hargett made a motion to approve the FastTrack projects that were presented. Mr. Lillard seconded the motion, and it was unanimously approved.

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

Approved on this \_\_\_\_\_ day of \_\_\_\_\_ 2019.

Respectfully submitted,

Sandra Thompson  
Assistant Secretary



FastTrack Report to State Funding Board

6/24/2019

1. Previous FastTrack Balance, as of Last Report	209,360,605.25
2. + New Appropriations:	2,366,187.76
3. + Newly Deobligated Funds:	626,009.41
4. + Funds Transferred to FastTrack:	0.00
5. - Funds Transferred from FastTrack:	(612,585.37)
6. - FastTrack Grants or Loans Approved Greater Than \$750,000:	(8,967,000.00)
7. - FastTrack Grants or Loans Approved Less Than \$750,000:	(2,920,900.00)
8. - FastTrack Administration	(95,033.40)
9. Adjusted FastTrack Balance Available for Funding FastTrack Grants or Loans:	199,757,283.65

10. Total Amount of Commitments: 186,542,799.17

11. Uncommitted FastTrack: 13,214,484.48

12. Percentage Committed: 93.4%

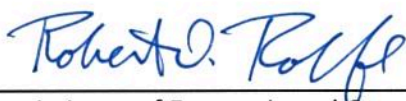
13. Amount of Proposed Grants or Loans: 12,923,500.00

14. Uncommitted FastTrack Balance if Proposed Grants or Loans Approved: 290,984.48

15. Percentage Committed: 99.9%

See next page for explanations of the above questions.

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



Date: 6/25/19

Commissioner of Economic and Community Development



## Department of Economic and Community Development

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Bob Rolfe  
Commissioner

Bill Lee  
Governor

June 27th, 2019

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

Dear Comptroller Wilson:

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

### **1. ebm-papst, Inc. – Johnson City (Washington County)**

Ebm-papst, Inc. is the world market leader in fan and motor manufacturing. The company produces motors and fans for many industries including agriculture, air-conditioning and ventilation, appliance, commercial refrigeration and others. Ebm-papst has an international reach with its global headquarters in Germany and employs more than 15,000 employees worldwide. The company’s U.S. headquarters is located in Connecticut.

The company will locate the new facility in Washington County Industrial Park, a Select Tennessee Certified Site. Ebm-papst, Inc. will manufacture fans for refrigeration, air conditioning and ventilation applications. The company’s Tennessee operation is set to be operational beginning in September 2019.

Ebm-papst, Inc. has committed to create 200 net new jobs and make a capital investment of \$37,320,000. The company will have an average hourly wage of \$15.39 for the new positions.

FastTrack Job Economic Development Grant Funds will help offset expenses such as site improvements and new construction. **(\$800,000)**

**Total FastTrack funds for this project - \$800,000**



## Department of Economic and Community Development

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Bob Rolfe  
Commissioner

Bill Lee  
Governor

### **2. SmileDirectClub, LLC / Access Dental Lab, LLC – Nashville and Antioch (Davidson County)**

SmileDirectClub, LLC, the market leader and pioneer of doctor-directed, remote invisible aligner therapy, will create 2,010 new jobs in Nashville and Antioch over the next five years. This is SmileDirectClub's second expansion in Middle Tennessee in two years. In February 2017, the company announced a \$4.5 million expansion across two Davidson County locations, which supported the creation of nearly 450 new jobs. Currently, SmileDirectClub, LLC employs more than 1,600 people in the Nashville area.

SmileDirectClub provides an affordable option to those searching for access to a straighter, more confident smile for much less than traditional treatment methods, and without having to visit the orthodontist's or dentist's office. Founded in 2014, SmileDirectClub employs more than 4,300 people and has helped over 500,000 customers around the world achieve their best smile.

SmileDirectClub, LLC has committed to create 2,010 net new jobs and make a capital investment of \$217,000,000. The company will have an average hourly wage of \$27.25 for the new positions.

FastTrack Job Economic Development Grant Funds will help offset expenses such as building retrofit, building improvements, relocation of personnel, relocation of equipment, fixture improvements, and new construction. **(\$3,500,000)**

FastTrack Job Training Assistance Program funds will be used to train the 2,010 new employees. **(\$6,550,000)**

**Total FastTrack funds for this project - \$10,050,000**

### **3. Western Express, Inc. – Nashville (Davidson County)**

Western Express, Inc. is an asset based over the road carrier headquartered in Nashville. The company was founded in 1991 and operates more than 2,600 tractor trucks and 6,500 trailers. In 2018, Western Express was ranked a top 25 carrier based on revenue in the United States. Western Express employs more than 2,100 full-time positions in Tennessee and has a total of 3,600 employees worldwide.

With this expansion, Western Express, Inc. will add new technology, business services and back office support at its headquarters in Nashville. The company will also invest in new trucks, trailers, GPS and other transportation related equipment. In addition to the new headquarters positions, Western Express, Inc. will hire more than 350 driving associates each year over the next five years.

Western Express, Inc. has committed to create 225 net new jobs and make a capital investment of \$88,500,000. The company will have an average hourly wage of \$33.89 for the new positions.





## Department of Economic and Community Development

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Bob Rolfe  
Commissioner

Bill Lee  
Governor

FastTrack Job Economic Development Grant Funds will help offset expenses such as building retrofit, building expansion, building improvements, and fixture improvements. **(\$1,300,000)**

**Total FastTrack funds for this project - \$1,300,000**

#### **4. Pilot.com, Inc. – Nashville (Davidson County)**

Pilot.com, Inc., founded in 2016 in San Francisco, Calif., provides bookkeeping solution for startups and other small businesses. The company specializes in freeing up founders and CEOs of companies from the tedious and complex process of keeping their company's books by providing software-based bookkeeping and customer support services to its customers.

Pilot.com's new account management headquarters in Nashville will house its account management and customer support teams. The company also plans on growing its base of software engineers at the new facility.

Pilot.com, Inc. has committed to create 455 net new jobs and make a capital investment of \$6,260,000. The company will have an average hourly wage of \$31.46 for the new positions.

FastTrack Job Training Assistance Program funds will be used to train the 455 new employees. **(\$773,500)**

**Total FastTrack funds for this project - \$773,500**

Sincerely,

A handwritten signature in blue ink that reads 'Roberto Rolfe'.

Bob Rolfe

BR/js

## 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
<b>INFRASTRUCTURE</b>			
<b>TRAINING*</b>			
<b>ECONOMIC DEVELOPMENT</b>	<b>Washington County Economic Development Council</b>	<b>\$800,000</b>	
<b>TOTAL</b>		<b>\$800,000</b>	

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

**\*ELIGIBLE BUSINESS BENEFICIARY** (if different than Recipient Entity):                                 **ebm-papst, Inc.**                                

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

**GENERAL STATUTORY COMPLIANCE**

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

**Identify which of the following apply:**

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

**Applicant must answer "Yes" to a or b.**

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

**TRAINING**

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

**INFRASTRUCTURE**

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

**Applicant must answer "Yes" to a or b.**

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

**ECONOMIC DEVELOPMENT**

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

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

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

6/25/19  
\_\_\_\_\_  
Date





Department of Economic and Community Development

Bob Rolfe  
Commissioner

Bill Lee  
Governor

May 13, 2019

**INCENTIVE ACCEPTANCE FORM**

This form serves as notice that ebm-papst Inc. intends, in good faith, to create 200 private sector jobs in Johnson City, Washington County and make a capital investment of \$37,320,000 in exchange for incentives that will be memorialized in a grant agreement between ebm-papst Inc. and the State of Tennessee.

**ECD OFFER SUMMARY**

FastTrack Economic Development Grant:	\$ 800,000
<b>Total ECD Commitment:</b>	<b>\$ 800,000</b>

Please sign your name in the space below to signify ebm-papst Inc.'s acceptance of ECD's offer set forth above and return it by August 10, 2019 to:

Tennessee Department of Economic and Community Development  
Attn: Scottie McCormick  
312 Rosa Parks Avenue, 27th Floor  
Nashville, TN 37243  
Scottie.McCormick@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: *Donald Bechtel*  
*ON BEHALF OF ebm-papst Inc.*  
(Authorized Representative of Company)

Date: 5/14/19



## Department of Economic and Community Development

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Bob Rolfe  
Commissioner

Bill Lee  
Governor

June 27, 2019

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 Washington County Economic Development Council for the benefit of ebm-papst, Inc. in the amount of \$800,000 to offset the costs ebm-papst, Inc. will incur in site improvements and new construction. 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 on a Select TN Certified Site. ebm-papst, Inc. has committed to create 200 net new jobs and make a capital investment of \$37,320,000. The company will have an average hourly wage of \$15.39 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

Bob Rolfe



## 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*	SmileDirectClub, LLC / Access Dental Lab, LLC	\$6,550,000	
ECONOMIC DEVELOPMENT	Industrial Development Board of the Metropolitan Government of Nashville and Davidson County	\$3,500,000	
<b>TOTAL</b>		<b>\$10,050,000</b>	

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

\*ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity): SmileDirectClub, LLC / Access Dental Lab, 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(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

Bob Rolfe  
Commissioner

Bill Lee  
Governor

February 28, 2019

**INCENTIVE ACCEPTANCE FORM**

This form serves as notice that Smile Direct Club, LLC and Access Dental Lab, LLC intends, in good faith, to create 2,010 private sector jobs in Nashville, Davidson County and make a capital investment of \$217,000,000 in exchange for incentives that will be memorialized in a grant agreement between Smile Direct Club, LLC and Access Dental Lab, LLC and the State of Tennessee.

**ECD OFFER SUMMARY**

FastTrack Grant*:	\$ 10,050,000
<b>Total ECD Commitment:</b>	<b>\$ 10,050,000</b>

\*The grant may be allocated using a FastTrack Training, FastTrack Infrastructure, or FastTrack Economic Development Grant, based on the company's needs as determined by ECD.

Please sign your name in the space below to signify Smile Direct Club, LLC and Access Dental Lab, LLC's acceptance of ECD's offer set forth above and return it by May 28, 2019 to:

Tennessee Department of Economic and Community Development  
Attn: Scottie McCormick  
312 Rosa Parks Avenue, 27th Floor  
Nashville, TN 37243  
Scottie.McCormick@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: 3/5/19



## Department of Economic and Community Development

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Bob Rolfe  
Commissioner

Bill Lee  
Governor

June 27, 2019

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 SmileDirectClub, LLC / Access Dental Lab, LLC. in the amount of \$3,500,000 to offset the costs SmileDirectClub, LLC / Access Dental Lab, LLC. will incur in building retrofit, building improvements, relocation of personnel, relocation of equipment, fixture improvements, and new construction. 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 and significant capital investment. SmileDirectClub, LLC / Access Dental Lab, LLC. has committed to create 2,010 net new jobs and make a capital investment of \$217,000,000. The company will have an average hourly wage of \$27.25 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

A handwritten signature in blue ink that reads "Robert Rolfe". The signature is written in a cursive, flowing style.

Bob Rolfe

## 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	<b>Industrial Development Board of the Metropolitan Government of Nashville and Davidson County</b>	<b>\$1,300,000</b>	
<b>TOTAL</b>		<b>\$1,300,000</b>	

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

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

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

### GENERAL STATUTORY COMPLIANCE

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

### Identify which of the following apply:

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

### Applicant must answer "Yes" to a or b.

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



**TRAINING**

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

**INFRASTRUCTURE**

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

**Applicant must answer "Yes" to a or b.**

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

**ECONOMIC DEVELOPMENT**

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

Bob Rolfe  
Commissioner

Bill Lee  
Governor

May 31, 2019

**INCENTIVE ACCEPTANCE FORM**

This form serves as notice that Western Express Inc. intends, in good faith, to create 225 private sector jobs in Nashville, Davidson County and make a capital investment of \$88,500,000 in exchange for incentives that will be memorialized in a grant agreement between Western Express Inc. and the State of Tennessee.

**ECD OFFER SUMMARY**

FastTrack Economic Development Grant:	\$ 1,300,000
<b>Total ECD Commitment:</b>	<b>\$ 1,300,000</b>

Please sign your name in the space below to signify Western Express Inc.'s acceptance of ECD's offer set forth above and return it by August 28, 2019 to:

Tennessee Department of Economic and Community Development  
Attn: Scottie McCormick  
312 Rosa Parks Avenue, 27th Floor  
Nashville, TN 37243  
Scottie.McCormick@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: 6-6-19



## Department of Economic and Community Development

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Bob Rolfe  
Commissioner

Bill Lee  
Governor

June 27, 2019

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 Western Express, Inc. in the amount of \$1,300,000 to offset the costs Western Express, Inc. will incur in building retrofit, building expansion, building improvements, and fixture 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 high wage jobs and significant capital investment. Western Express, Inc. has committed to create 225 net new jobs and make a capital investment of \$88,500,000. The company will have an average hourly wage of \$33.89 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

A handwritten signature in blue ink that reads "Robert Rolfe".

Bob Rolfe



## 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*	Pilot.com, Inc.	\$773,500	
	ECONOMIC DEVELOPMENT			
	TOTAL		\$773,500	

(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): Pilot.com, Inc.

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

### GENERAL STATUTORY COMPLIANCE

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

### Identify which of the following apply:

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

### Applicant must answer "Yes" to a or b.

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

**TRAINING**

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

**INFRASTRUCTURE**

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

**Applicant must answer "Yes" to a or b.**

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

**ECONOMIC DEVELOPMENT**

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

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



Commissioner of Economic and Community Development

6/25/19  
Date





Department of Economic and Community Development

Bob Rolfe  
Commissioner

Bill Lee  
Governor

April 5, 2019

**INCENTIVE ACCEPTANCE FORM**

This form serves as notice that Pilot.com, Inc. intends, in good faith, to create 455 private sector jobs in Nashville-Davidson County and make a capital investment of \$6,260,000 in exchange for incentives that will be memorialized in a grant agreement between Pilot.com, Inc. and the State of Tennessee.

**ECD OFFER SUMMARY**

FastTrack Job Training Grant:	\$ 773,500
<b>Total ECD Commitment:</b>	<b>\$ 773,500</b>

Please sign your name in the space below to signify Pilot.com, Inc.'s acceptance of ECD's offer set forth above and return it by July 3, 2019 to:

Tennessee Department of Economic and Community Development  
Attn: Scottie McCormick  
312 Rosa Parks Avenue, 27th Floor  
Nashville, TN 37243  
Scottie.McCormick@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: Jeffrey Arnold  
(Authorized Representative of Company)

Date: 4/17/2019



## Tennessee Housing Development Agency

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

**Bill Lee**  
Governor

**Ralph M. Perrey**  
Executive Director

### MEMORANDUM

**DATE:** May 22, 2019  
**TO:** Sandi Thompson,  
Director of the Office of State and Local Finance  
**FROM:** Lynn Miller, *LEM*  
Chief Legal Counsel  
**SUBJECT:** Tennessee Housing Development Agency  
Schedule of Financing for Fiscal Year 2019-2020

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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 20, 2019, and by THDA's Board of Directors at its meeting on May 21, 2019.

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 27, 2019.

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

LEM/ds

Attachment

Office of State and Local Finance/COT  
MAY 23 2019  
Time Received \_\_\_\_\_

**TENNESSEE HOUSING DEVELOPMENT AGENCY**

**SCHEDULE OF FINANCING  
FISCAL YEAR 2019-2020**

**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 2019-2020 is attached.

Total amount of bonds or notes reflected on Schedule  
of Financing for Fiscal Year 2019-2020:

\$475,000,000\*

\*Approximately \$30,000,000 of this amount is expected to be used to refund bonds eligible for refunding on or after January 1, 2020.

**TENNESSEE HOUSING DEVELOPMENT AGENCY  
SCHEDULE OF FINANCING  
FISCAL YEAR 2019-2020**

**ISSUE 2019-3 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP/REFUNDING  
August 2019**

Sources of Funds

Proceeds of the Issue	\$ 110,000,000
-----------------------	----------------

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 110,000,000
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 2019-4 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP  
November 2019**

Sources of Funds

Proceeds of the Issue	\$120,000,000*
-----------------------	----------------

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 120,000,000
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

\*Approximately \$30,000,000 of this amount is expected to be used to refund bonds eligible for refunding on or after January 1, 2020.

**ISSUE 2020-1 - RESIDENTIAL FINANCE BONDS –NEW VOLUME CAP/REFUNDING  
February 2020**

Sources of Funds

Proceeds of the Issue \$ 115,000,000

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds \$ 115,000,000

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 )

**ISSUE 2020-2 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP/REFUNDING  
May 2020**

Sources of Funds

Proceeds of the Issue \$130,000,000\*

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds \$130,000,000\*

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 )

\*Approximately \$95,000,000 of this amount is expected to be used to purchase loans in early fiscal year 2020-2021.

**Single Family Bonds Sold in FY 2018-2019**

\$ 149,000,000 Issue 2018-3 Residential Finance Program Bonds,  
Dated September 6, 2018

\$ 225,000,000 Issue 2018-4 Residential Finance Program Bonds,  
Dated November 15, 2018

\$ 175,000,000 Issue 2019-1 Residential Finance Program Bonds,  
Dated March 21, 2019

\$ 200,000,000 Issue 2019-2 Residential Finance Program Bonds,  
Expected to close June 27, 2019

TOTAL \$749,000,000

<b>Multifamily Bonds Sold in FY 2018-2019</b>	\$	0	
<b>Volume Cap Used by Local Issuers For Multi-Family Housing in 2018</b>	\$ 335,725,000		From THDA's 2018 Volume Cap Allocation
<b>Volume Cap Available to Local Issuers For Multi-Family Housing in 2019</b>	\$ 200,000,000		From THDA's 2019 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 purchased.
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 2019, volume cap carried forward from 2016 will be used. THDA currently has \$409,692,988 in 2016 carried forward volume cap available. For bond issues in calendar year 2020, volume cap THDA carried forward from 2017 will be used. THDA currently has \$467,019,000 in 2017 carried forward volume cap available. Unused 2016 volume cap, if any, will be made available for the THDA Mortgage Credit Certificate Program by making the required elections on or before December 31, 2019.
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 assets available for such purpose under the 2013 General Resolution, 1985 General Resolution or the 2009 General Resolution.



**RESOLUTION MAKING FINDINGS  
FOR DECREASE IN SPECIAL REVENUES**

WHEREAS, Section 9-9-104(a), Tennessee Code Annotated (“Section 9-9-104(a)”), pledges, inter alia, for the payment of the principal of and interest on the bonds of the State of Tennessee (the “State”) issued under Title 9, Chapter 9, Tennessee Code Annotated, outstanding as of July 1, 2013, the entire annual proceeds (the “Franchise Tax Proceeds”) of franchise taxes imposed by the franchise tax law compiled in Title 67, Chapter 4, Part 21, Tennessee Code Annotated; and

WHEREAS, the State has covenanted with the holders of such bonds that it will not decrease by legislative action any of the fees or taxes pledged pursuant to Section 9-9-104(a), including, without limitation, the Franchise Tax Proceeds, or eliminate from the requirement to pay such fees or taxes any substance, motor vehicle or corporation on account of which the payment of such fees or taxes is required, unless the Funding Board of the State of Tennessee (the “State Funding Board”) shall certify as required by Section 9-9-104(b), Tennessee Code Annotated (“Section 9-9-104(b)”); and

WHEREAS, the method of apportionment of net worth contained in Section 67-4-2111(l), Tennessee Code Annotated (the “Subsection”), which method applies to tax years beginning on or after January 1, 2017, is expected by the Department of Finance and Administration to result in a decrease in the Franchise Tax Proceeds for the fiscal year 2019-2020; and

WHEREAS, part (5) of the Subsection provides that the Subsection shall be operative only for such fiscal years as to which the State Funding Board shall have made a certification pursuant to Section 9-9-104(b).

NOW, THEREFORE, BE IT RESOLVED by the State Funding Board, and the State Funding Board hereby certifies, pursuant to Section 9-9-104(b), as follows:

1. All payments due the State Funding Board under Title 9, Chapter 9, Tennessee Code Annotated, have been made in full;
2. The State is not in default in the payment of any outstanding debt or in the payment of interest thereon; and
3. The fees and taxes pledged pursuant to Section 9-9-104(a), including, without limitation, the Franchise Tax Proceeds, calculated as required by the Subsection, for the fiscal year 2019-2020 will be sufficient to provide funds adequate to meet all payments required to be made by the State Funding Board in such fiscal year, as well as to provide for the other obligations and expenses of the State for such fiscal year to be defrayed therefrom.

BE IT FURTHER RESOLVED by the State Funding Board that this Resolution shall take effect immediately upon its adoption.



STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0285

STUART C. McWHORTER  
COMMISSIONER

June 19, 2019

MEMORANDUM

TO: The Honorable Justin P. Wilson, Secretary  
State Funding Board

FROM: Stuart C. McWhorter, Commissioner

*Stuart C. McWhorter*

SUBJECT: Franchise Tax Reduction

This memorandum shall serve as confirmation of the following:

1. All payments due pursuant to Tennessee Code Annotated Title 9, Chapter 9 have been made in full;
2. The State is not in default in the payment of any outstanding debt or in the payment of interest thereon; and
3. Notwithstanding the lowering of the collections in the taxes imposed by the franchise tax law compiled in Title 67, Chapter 4, Part 21, Tennessee Code Annotated, such collections will be fully sufficient to provide funds adequate to meet all payments required to be made by the State Funding Board in the upcoming fiscal year and to provide for the other obligations of the State in Fiscal Year 2019-2020.

SCM:DT:ars

cc: Office of State and Local Finance  
F&A - Division of Budget

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
STATE OF TENNESSEE**



**DAVID H. LILLARD, JR.**  
STATE TREASURER

**TREASURY DEPARTMENT**  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

**MARY JO PRICE**  
CHIEF OPERATING OFFICER

**MICHAEL BRAKEBILL**  
CHIEF INVESTMENT OFFICER

**JAMIE WAYMAN**  
DIRECTOR OF TCRS

June 13, 2019

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") has entered into an amended and restated contract (the "Contract") with the State of Tennessee (the "State"), acting by and through the State Funding Board, whereby TCRS serves as a standby purchaser under the State's commercial paper program. The Contract was effective as of July 1, 2016 and expires on July 1, 2021.

Either party may 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, 2020.

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 8-3 7-110 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,

  
Derrick Dagnan, CFA  
Deputy Chief Investment Officer



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

June 27, 2019

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 an amended and restated contract (the “Contract”) with the State of Tennessee (the “State”), acting by and through the State Funding Board, whereby TCRS serves as a standby purchaser under the State’s commercial paper program. The Contract was effective as of July 1, 2016 and 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, 2020.

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, 2020.

Sincerely,

Justin P. Wilson  
Secretary, State Funding Board

# **STATE POOLED INVESTMENT FUND**

## **INVESTMENT POLICY**

### **REVISED AND RESTATED**

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## I. Definitions

The following definitions are used hereafter with respect to and for purposes of this Investment Policy:

**Board** – State Funding Board.

**Comparable Quality** – A security or investment that 1) presents minimal credit risk, 2) is denominated in United States Dollars (USD), and 3) is determined by the Board or the Investment Staff, whereby such determination is made in writing and retained for record retention purposes, to be of comparable quality to securities that have a credit rating within the highest tier of short-term ratings or its long-term equivalent.

**Daily Liquid Assets** – The following investment instruments: cash, including certificates of deposit and money market demand deposit accounts that mature within one (1) business day; U.S. Direct Obligation Securities; securities that will mature within one (1) business day, without reference to Maturity Shortening Feature(s) for securities with a variable or floating interest rate; securities subject to a demand feature that is exercisable and payable within one (1) business day; and amounts receivable and due unconditionally within one (1) business day on pending sales of securities.

**First Tier Quality** – A security that 1) presents minimal credit risk, 2) is denominated in United States Dollars (USD), and 3) has an Investment Grade credit rating.

**Illiquid Investment** – An investment that cannot be sold or disposed of in the ordinary course of operations at its amortized cost value within five (5) business days.

**Investment Grade** – A credit rating within the highest tier of short-term ratings or its long-term equivalent (e.g., P-1, A-1, F1) by a NRSRO. Rating modifiers (+, -) will not be considered when determining the tier. If rated by two NRSROs and the ratings conflict, the lower tier applies. If rated by more than two (> 2) NRSROs, the highest ratings determined by at least two (≥ 2) NRSROs applies. The Board has determined that U.S. Direct Obligation Securities, U.S. Agency Securities and U.S. Instrumentality Securities to be of Comparable Quality that have been rated within the highest category of credit ratings and are deemed to be rated Investment Grade.

**Investment Staff** – Each Department of Treasury, Investment Division employee involved in the investment management of the SPIF.

**Maturity Shortening Feature (“MSF”)** – Detailed criteria used to calculate the maturity for a security or other investment with a specific feature. For purposes of this Investment Policy, the following are considered allowable:

<b>Security</b>	<b>Stated Maturity</b>	<b>Maturity using a Maturity Shortening Feature</b>
U.S. Government Securities with a variable interest rate	N/A	The period remaining until the next readjustment of the interest rate shall be $\leq$ 397 calendar days.
Other investment with a variable interest rate, not U.S. Government Securities	$\leq$ 397 calendar days	The shorter of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand shall be $\leq$ 397 calendar days.
Other investment with a variable interest rate, not U.S. Government Securities	$>$ 397 calendar days	The longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand shall be $\leq$ 397 calendar days.
U.S. Government Securities with a floating interest rate	N/A	One day.
Other investment with a floating interest rate, not U.S. Government Securities	$\leq$ 397 calendar days	The shorter of the period remaining until the next readjustment of the interest rate resets or the maturity date of the investment shall be $\leq$ 397 calendar days.
Other investment with a floating interest rate, not U.S. Government Securities	$>$ 397 calendar days	The period remaining until the principal amount can be recovered through demand shall be $\leq$ 397 calendar days.
Repurchase or Reverse Repurchase Agreement or Securities Lending Agreement	N/A	Either the i) period remaining until the date on which the repurchase (or return) of the underlying securities is scheduled to occur or ii) the duration of the notice period applicable to a demand for the repurchase (or return) of the securities, such as a put option, shall be $\leq$ 397 calendar days.

**Nationally Recognized Statistical Rating Organization (“NRSRO”)** - Any credit rating agency that is registered with the Securities and Exchange Commission (“SEC”) as such. For the avoidance of doubt, a NRSRO includes “commercial paper rating services.”

**Repurchase or Reverse Repurchase Agreement** – A tri-party repurchase agreement or tri-party reverse repurchase agreement whereby 1) the securities are insured and registered in the name of the state and 2) a custodian, not the counterparty, acts as an intermediary.

**Second Tier Quality** – A security that 1) presents minimal credit risk, 2) is denominated in United States Dollars (USD), and 3) has a credit rating description given to securities rated within the second tier of short-term ratings or its long-term equivalent (e.g., P-2, A-2, F2) by a NRSRO; rating modifiers (+, -) shall not be considered when determining the tier. If a security has been rated by two NRSROs and the ratings conflict, the security shall be considered to be in the lower tier. If a security has been rated by more than two ( $>$  2) NRSROs, the security shall be considered to be in the highest category of ratings determined by at least two NRSROs.



**Shadow Price** – The net asset value per share calculated using SPIF measured at fair value at the calculation date.

**SPIF** – State Pooled Investment Fund, which is also be referred to in state law as “pooled investment fund.” For purposes of this Investment Policy, the term SPIF shall also include the total investment portfolio of the SPIF, including, but not limited to, the pooled investment fund, the funds of the Local Government Investment Pool that have been commingled for investment purposes pursuant to T.C.A. §9-4-704 and any unspent proceeds from the sale of bonds issued by the Tennessee State School Bond Authority which have been commingled for investment purposes pursuant to the Higher Education Facilities Second Program General Bond Resolution, as amended.

**Stable Net Asset Value** – The net asset value of one dollar (\$1.00) per share calculated using SPIF measured at amortized cost at the calculation date.

**Stated Maturity** – The period remaining, calculated from the trade or acquisition date, until the date on which the total or remaining principal amount is required to be unconditionally repaid in accordance with the terms of the security or other investment.

**T.C.A.** – Tennessee Code Annotated.

**U.S. Agency Securities** – Debt obligations guaranteed as to principal and interest by any agency of the United States.

**U.S. Direct Obligation Securities** – bonds, notes and treasury bills of the United States or other debt obligations guaranteed as to principal and interest by the United States.

**U.S. Government Securities** – U.S. Direct Obligation Securities, U.S. Agency Securities and U.S. Instrumentality Securities.

**U.S. Instrumentality Securities** – Debt obligations guaranteed as to principal and interest by any United States government-sponsored corporation. For the avoidance of doubt, “government-sponsored corporation,” includes any United States government-sponsored enterprises (“GSEs”) and any instrumentality with the express or implied backing of the United States government.

**Weekly Liquid Assets** – For purposes of this Investment Policy, the following investment instruments: cash, including certificates of deposit and money market demand deposit accounts that mature within five (5) business days and are expected to be held to maturity; U.S. Direct Obligation Securities; U.S. Agency Securities or U.S. Instrumentality Securities issued at a discount without provision for the payment of interest and that have a remaining maturity of sixty days or less ( $\leq 60$ ); securities that will mature within five (5) business days, without reference to Maturity Shortening Feature(s) for securities with a variable or floating interest rate; securities subject to a demand feature that is exercisable and payable within five (5) business days; and amounts receivable and due unconditionally within five (5) business days on pending sales of securities.

## **II. Overview and Authority**

### **A. Introduction**

The SPIF was established to receive and invest money in the custody of any officer or officers of the state, unless prohibited by statute to be invested. For investment purposes, pursuant to T.C.A. §9-4-704, funds in the Local Government Investment Pool (“LGIP”) have been commingled with state funds held in the SPIF.

### **B. Investment Authority**

Administration and responsibility for the proper operation of the SPIF are vested with the State Treasurer. The State Treasurer may delegate certain responsibilities of day-to-day administration to Department of Treasury staff.

Implementation of the Investment Policy established by the Board is hereby delegated to the State Treasurer, who shall put such policy into effect. In implementing this Investment Policy, the State Treasurer hereby delegates certain responsibilities to the Investment Staff, including the power to invest and reinvest the SPIF in accordance with the criteria established by this Investment Policy.

### **C. Fiduciary Standard**

The SPIF shall be invested and managed in good faith and in the best interest of the participants with the care an ordinarily prudent person in a like position would exercise under similar circumstances. Notwithstanding the foregoing, and in accordance with T.C.A. §9-4-602, the SPIF shall be invested subject to the criteria further established by the Board through this Investment Policy, as may be amended from time to time.

### **D. Scope**

The Investment Policy is binding on all persons and entities with authority over the SPIF.

## **III. Objective**

The purpose of this Investment Policy is to support the governing principles by:

- Outlining the distinct roles and responsibilities of the Board, State Treasurer, and Investment Staff;
- Electing the method of measuring securities and investments for financial reporting purposes;
- Setting forth the additional investment criteria, which the Board determines to be prudent in consideration of the purposes, terms, distribution requirements and other circumstances of the SPIF and in the best interest of the participants;
- Communicating the Investment Policy, as approved by the Board; and
- Functioning as a supervisory tool, guiding the ongoing oversight of the SPIF.

## **IV. Roles and Responsibilities**

In addition to the responsibilities described below and throughout this Investment Policy, additional duties and responsibilities outlined within federal and state laws, rules and regulations; executed contracts or agreements; or as dictated by standard business or industry practices may exist.

### **A. Board**

- 1) Adopt an Investment Policy that establishes the additional investment criteria, which the Board determines to be prudent in consideration of the purposes, terms, distribution requirements and other circumstances of the SPIF and in the best interest of the participants;
- 2) Evaluate the investment performance of the SPIF through reports supplied by the State Treasurer and Investment Staff; and
- 3) Periodically review the actions taken by delegates in order to monitor performance and compliance with the terms of the delegation.

### **B. State Treasurer**

- 1) Implement the Investment Policy, as approved by the Board;
- 2) Operate with a duty of undivided loyalty, investing and managing the SPIF solely in the interest of the participants;
- 3) Delegate investment, administrative and management functions that a prudent person of comparable skills would properly delegate under the circumstances;
- 4) Review and, as applicable, authorize the use of service providers and the employment of Investment Staff;
- 5) Evaluate and, as applicable, approve the processes employed and procedures established by Investment Staff;
- 6) Evaluate the investment performance of the SPIF through reports supplied by Investment Staff;
- 7) Negotiate and execute, with the advice of legal counsel, as applicable, all contracts, agreements, forms and memoranda of understanding deemed necessary or desirable for the efficient administration of the SPIF;
- 8) Monitor the SPIF' compliance with this Investment Policy and applicable federal and state laws, rules and regulations; and
- 9) Take actions that are deemed essential to protect the SPIF and participants' interests.

### **C. Investment Staff**

- 1) Assume fiduciary responsibility and authority, as delegated by the State Treasurer, for the Investment Staff member's role in the ongoing evaluation, administration and management of the SPIF;
- 2) Utilize special skills and expertise in an effort to accomplish the objectives stated in the Investment Policy;
- 3) Operate with a duty of undivided loyalty, investing, administering and managing the SPIF solely in the interest of the participants;
- 4) Source and evaluate prospective investments on an as-needed basis;
- 5) Ensure compliance with the Investment Policy and such other policies, procedures, internal controls, laws, rules and regulations that may apply;

- 6) Assist the State Treasurer, or his designee, with respect to any matters related to the SPIF and the SPIF;
- 7) Prepare and submit reports, as required, to document investment activities; and
- 8) Notify the State Treasurer of situations that merit his/her attention.

## V. Governing Principles

The Board has determined, in good faith and in the best interest of the participants, and hereby adopts the following set of governing principles for the oversight of the SPIF:

### A. Preservation of Principal and Liquidity

The SPIF shall be designed to be consistent with preservation of principal and shall hold liquid assets sufficient to meet reasonably foreseeable redemptions and operating requirements.

### B. Amortized Cost and Stable Net Asset Value

The Board elects to measure for financial reporting purposes all of its investments and securities at amortized cost and transacting with participants at a Stable Net Asset Value.

### C. Benchmark

~~The three month U.S. Treasury Bill rates shall be the established benchmark for purposes of establishing a standard for evaluating the SPIF's investment performance. The performance of the SPIF is closely correlated to the average yield of the three-month U.S. Treasury Bill. The performance benchmark for the SPIF will be the Blackrock Treasury Strategies Institutional Fund (ticker MLIXX).~~

### D. Authorized Investment Instruments and Investment Activities

The Board, in accordance with T.C.A. §9-4-602, hereby authorizes and empowers the State Treasurer and Investment Staff to invest and reinvest the SPIF in the following securities and investment activities, subject to all the terms, conditions, limitations and restrictions imposed, as applicable, by this Investment Policy and other policies, procedures, internal controls, laws, rules and regulations that may apply:

- U.S. Direct Obligation Securities
- U.S. Agency Securities;
- U.S. Instrumentality Securities;
- Repurchase or Reverse Repurchase Agreements;
- Certificates of deposit;
- Prime commercial paper;
- Prime banker's acceptances; and
- Securities lending agreements.

For the avoidance of doubt, money market demand deposit accounts shall be considered cash.

### E. Use of Demand Features or Guarantees

If a security, underlying collateral, or other investment is subject to a guarantee or demand feature and the guarantee or demand feature is not being relied upon, the guarantee or demand feature shall be disregarded for the purposes of calculating maturity, quality, diversification or liquidity.

## VI. Additional Investment Criteria

The Board hereby imposes the additional investment criteria, which the Board determines to be prudent in consideration of the purposes, terms, distribution requirements and other circumstances of the SPIF and in the best interest of the participants. The disqualification of an investment under one (1) section of this Investment Policy does not prevent its qualification in whole or in part under another section.

### A. Maturity

No security or investment purchased shall have a remaining maturity greater than three hundred ninety seven calendar days (i.e. maturity  $\leq$  397 calendar days), as determined by using either the Stated Maturity or an applicable Maturity Shortening Feature.

The weighted average maturity (“WAM”) of the SPIF cannot exceed sixty days (i.e. WAM  $\leq$  60 days), calculated using Maturity Shortening Feature(s) for securities with a variable or floating interest rate.

The weighted average life (“WAL”) of the SPIF cannot exceed one hundred twenty days (i.e. WAL  $\leq$  120 days), calculated using Stated Maturity without using the Maturity Shortening Feature(s) for securities with a variable or floating interest rate.

### B. Quality

The quality of the following securities shall be evaluated in terms of the minimum quality criteria listed:

<b>Security Type</b>	<b>Minimum Quality Criteria</b>
U.S. Direct Obligation Securities, U.S. Agency Securities or U.S. Instrumentality Securities	<p>First Tier.</p> <p>If the security is subject to a guarantee, the security shall have met the First Tier quality criteria, if the guarantee or guarantor has an Investment Grade credit rating or be of Comparable Quality.</p> <p>If the security is subject to a conditional demand feature, the security shall be First Tier and the conditional demand feature, itself, shall have an Investment Grade credit rating or be of Comparable Quality.</p>
Repurchase or Reverse Repurchase Agreement	<p>A counterparty, or its parent, shall have an Investment Grade credit rating, be a primary dealer as defined by the Federal Reserve Bank of New York, or be of Comparable Quality.</p> <p>The fair value of the underlying collateral shall be at least equal to the resale price provided in the Repurchase or Reverse Repurchase Agreement.</p>

Security Type	Minimum Quality Criteria
Certificates of deposit and Money market demand deposit accounts	<p>A depository institution shall be a state depository pursuant to T.C.A. §9-4-107 and collateralized in accordance with T.C.A. §9-4-403. Such depository institutions are deemed by the Board to be of Comparable Quality to Investment Grade depository institutions.</p> <p>The underlying collateral is limited to those securities and investments authorized under T.C.A. §9-4-103, excluding surety bonds.</p> <p>The interest rates paid on certificates of deposit or money market demand deposit accounts shall be established by the Investment Staff and based on current market conditions, specified maturity dates and cost of collateralization. The interest rates shall be periodically evaluated and, as necessary, readjusted. Each change to interest rates shall be reported in writing to the Board.</p>
Prime Commercial Paper	<p>First Tier, but the security shall have an Investment Grade credit rating by at least two (<math>\geq 2</math>) NRSROs and the issuer shall be approved in writing by the CIO.</p> <p>If the security is subject to a guarantee, the security shall have met the First Tier quality criteria, if the guarantee or guarantor has an Investment Grade credit rating or be of Comparable Quality.</p> <p>If the security is subject to a conditional demand feature, the security shall be First Tier and the conditional demand feature, itself, shall have an Investment Grade credit rating or be of Comparable Quality.</p>
Prime Banker's Acceptances	<p>First Tier, the security or issuer shall have an Investment Grade credit rating, and the security shall be eligible for purchase by the federal reserve system.</p> <p>If the security is subject to a guarantee, the security shall have met the First Tier quality criteria, if the guarantee or guarantor has an Investment Grade credit rating or be of Comparable Quality.</p> <p>If the security is subject to a conditional demand feature, the security shall be First Tier and the conditional demand feature, itself, shall have an Investment Grade credit rating or be of Comparable Quality.</p>

Security Type	Minimum Quality Criteria
Securities Lending Agreement	<p>The underlying collateral is limited to First Tier U.S. Direct Obligation Securities, U.S. Agency Securities or U.S. Instrumentality Securities, which may be subject to a guarantee or conditional demand feature, cash or other securities as allowable under T.C.A. §9-4-103, excluding surety bonds.</p> <p>The fair value of the underlying collateral shall be at least equal to one hundred and two percent (<math>\geq 102\%</math>) of the fair value of the borrowed securities or one hundred percent (<math>\geq 100\%</math>) of the fair value of the borrowed securities for cash collateral.</p>

If a security, after acquisition, or underlying collateral of a Repurchase or Reverse Repurchase Agreement is downgraded:

- to Second Tier Quality, the SPIF may continue to hold the security so long as the total amount of Second Tier Quality securities do not constitute more than three percent ( $> 3\%$ ) of the SPIF at each fiscal year end.
- Below Second Tier Quality, the SPIF shall divest of the security prior to each fiscal year end.

### C. Diversification

Less than five percent ( $< 5\%$ ) of the SPIF shall be in investments of any one issuer of securities.

Less than ten percent ( $< 10\%$ ) of the SPIF shall be in investments of any one issuer of a demand feature or guarantee.

At each fiscal year end, the SPIF shall hold less than one-half of one percent ( $< 0.5\%$ ) of SPIF in any one issuer of Second Tier Quality securities. If the Second Tier Quality securities are subject a demand feature or guarantee, less than two and a half percent ( $< 2.5\%$ ) of the SPIF shall be of any one provider of demand features or guarantees.

The diversification limitations listed above shall not apply to or include U.S. Government Securities.

For the purposes of calculating portfolio diversification, the following apply if:

- one issuer controls (i.e. owns more than fifty percent of an issuer's voting securities) another issuer(s), such issuers will be deemed a single issuer;
- two or more ( $\geq 2$ ) issuers are under common control (i.e. entity owns more than fifty percent of the issuers' voting securities), such issuers will be deemed a single issuer;
- a Repurchase or Reverse Repurchase Agreement, the collateral is to be considered;
- a refund security, the escrowed securities are to be considered;
- a conduit security, the entity ultimately responsible for the payments of principal and interest is to be considered;
- an asset-backed security where the obligations of a single entity constitute ten percent or more ( $\geq 10\%$ ) of the assets that back the security, the entity, itself, is to be considered, proportionally; and
- a secondary asset-backed security where the obligations of a single entity constitute ten percent or more ( $\geq 10\%$ ) of the assets that back the secondary security, the entity, itself,



is to be considered, proportionally.

#### **D. Liquidity**

Less than five percent ( $< 5\%$ ) of the SPIF shall be in Illiquid Investments.

At least ten percent ( $\geq 10\%$ ) of the SPIF shall be in Daily Liquid Assets and at least thirty percent ( $\geq 30\%$ ) of the SPIF shall be in Weekly Liquid Assets.

Additionally, the SPIF shall not be invested in more than:

- two hundred fifty million dollars ( $\leq \$250,000,000$ ) of prime commercial paper issued by any one issuer, excluding prime commercial paper that matures on the next business day; and
- twenty-five million dollars ( $\leq \$25,000,000$ ) of prime banker's acceptances issued by any one issuer.

Furthermore, the total fair value of securities on loan under securities lending agreements shall not exceed fifty percent ( $< 50\%$ ) of the fair value of the SPIF on any day.

## **VII. Risk Management and Monitoring**

#### **A. Shadow Price**

No earlier than five ( $\leq 5$ ) business days prior to and no later than the end of the month, each month, the Investment Staff shall calculate the Shadow Price. The Shadow Price shall not deviate (+ or -) by more than one half of one percent ( $> 0.5\%$ ) from the Stable Net Asset Value.

#### **B. Stress Testing**

To minimize principal volatility, the Board hereby determines micro stress testing, to identify specific issues of concern (e.g. exposure to short-term interest rates, an increase in redemptions, a default of a specific security, etc.), and macro stress testing, to quantify the impact of worst-case economic scenarios, shall be annually conducted on the SPIF.

Such stress testing may be outsourced to a third-party or conducted by the Investment Staff using an industry-recognized model.

The results of the micro and macro stress testing shall be timely submitted in writing to the Board. The Board shall review the results and determine if 1) it is in the best interest of the SPIF and participants to continue to measure the SPIF at a Stable Net Asset Value and 2) changes to investment policy or strategy are required.



### **C. Deviation**

In the event there is a deviation from the investment criteria or limitations prescribed in this Investment Policy, the Investment Staff shall notify the Department of Treasury compliance staff and, collectively determine, using professional judgment, if such deviation was significantly noncompliant and consider what action, if any, should be initiated.

If a deviation is classified as significantly noncompliant, then such deviation shall be reported to the State Treasurer and the Department of Treasury accounting staff. The State Treasurer and Investment Staff shall determine what action, if any, should be taken. Such deviation shall also be reported in writing to the Board at its next meeting.

### **D. Safekeeping and Custody**

To mitigate custodial credit risk, the SPIF shall be held by the Federal Reserve Bank or by an eligible custodian bank, savings and loan association or trust company that is duly selected and contractually bound and held in the name Treasurer of the State of Tennessee, or such name that is substantially similar thereto.

### **E. Trading, Brokerage and Research**

Best execution, cost and benefits that serve the exclusive interest of the participants are the overriding principles in determining the trading and brokerage counterparty to be used in any transaction. The State Treasurer and Investment Staff are hereby authorized to transact with duly selected trading and brokerage counterparties. Selection of trading and brokerage counterparties shall be subject to the qualifications and processes established by the Investment Staff and approved by the State Treasurer.

### **F. Legal, Compliance and Audit**

Investment Staff shall collaborate with the Department of Treasury compliance staff to ensure efficient and effective development and administration of a compliance program that is reasonably designed to prevent, detect and, if necessary, remedy violations of the laws, rules, regulations and policies applicable to the Department of Treasury Investment Division's investment and securities activities.

To aid in the safeguarding of the SPIF, the Department of Treasury internal audit staff shall periodically evaluate risk control areas as to their adequacy, efficiency and effectiveness. Additionally, the State Treasurer shall ensure that critical investment, accounting and legal, compliance and audit functions are segregated within the Department of Treasury.

### **G. ~~Additional Policies, Investment Procedures and Guidelines~~**

The Board ~~and State Treasurer~~ deems ~~the policies, procedures and guidelines established and implemented by the State Treasurer and Investment Staff as~~ integral components to the implementation ~~and oversight~~ of the Investment Policy ~~and effective oversight of the SPIF~~. At a minimum, the ~~State Treasurer~~ Investment Staff shall implement written ~~policies and~~ procedures related to ~~trade management and supervision,~~ conflicts of interest, ~~performance reporting~~ and ~~record retention~~ stress testing.

## **H. Conflicts of Interest**

The Investment Staff are required, under separate policies, to notify the Department of Treasury's compliance officer of a conflict of interest or the appearance of a conflict of interest. In the event a disclosed conflict of interest or apparent conflict of interest is related to a specific investment recommendation or transaction, the Department of Treasury's compliance officer will ensure that such disclosure, if material, is made in writing to the Board at the next scheduled meeting.

## **VIII. Reporting**

### **A. Monthly Holdings Report**

No later than five ( $\leq 5$ ) business days after the end of the month, each month, the Investment Staff shall issue a holdings report, based on securities and investments held as of the last business day of the month, that includes, at a minimum, the following:

- 1) a description of each security and investment, as further described below;
- 2) the WAM and WAL;
- 3) the Shadow Price; and
- 4) the month-to-date time weighted return.

A description of each security and investment shall include:

- 1) Name of the issuer;
- 2) Category of investment;
- 3) CUSIP number (if any);
- 4) Principal amount;
- 5) Stated Maturity
- 6) Maturity using a Maturity Shortening Feature, if different than Stated Maturity;
- 7) Coupon or yield; and
- 8) Amortized cost value.

The holdings report shall be posted to the Department of Treasury's internet site. The current and prior five (5) months' holdings reports shall be available on the Department of Treasury's internet site.

### **B. Quarterly Investment Report**

After the end of each quarter, Investment Staff shall prepare and the State Treasurer shall electronically submit a detailed, written review of the investment activity to the Board.

### **C. Annual Report**

Annually, Investment Staff shall prepare and the State Treasurer shall electronically submit a comprehensive investment report to the Board. This report shall include, at a minimum, twelve-month performance returns compared to the benchmark, the administrative fee charged to participants, and any recommendations to investment policy, investment strategy or the administrative fee.

## IX. Other Considerations

The Board, State Treasurer, Investment Staff and service providers are required to comply with all applicable federal and state laws, rules and regulations. The Investment Policy may reference or restate applicable laws, rules and regulations, or portions thereof, for convenience; however, in the event of any conflict between the law and this Investment Policy, the law prevails. Each fiduciary is ultimately responsible for compliance with applicable laws, rules and regulations.

The Board hereby authorizes the State Treasurer to take, for and on behalf of the SPIF, all actions necessary to comply with applicable federal and state securities laws, rules and regulations. In implementing such, the State Treasurer may delegate certain responsibilities to the Department of Treasury staff or service providers.

~~In cases of uncertainty, t~~The State Treasurer is authorized to provide written interpretive guidance and approve in writing, from time to time, ~~variances-exceptions~~ from the requirements contained within the Investment Policy in furtherance of compliance or as deemed in the best interest of the participants, consistent with both fiduciary standards and the scope of the Investment Policy. Such interpretive guidance or ~~variance-exceptions~~ shall be reported in writing to the Board at its next meeting.

## X. Approval and Adoption

The Board approved and adopted this revised and restated Investment Policy of the State Pooled Investment Fund at its meeting on the ~~7th~~ day of ~~April~~, 201~~69~~ and such Investment Policy shall only be changed by subsequent action of the Board.

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Justin P. Wilson, SECRETARY  
STATE FUNDING BOARD

**Office of State and Local Finance Balloon Indebtedness Request History**

For the Period March 1, 2015 through June 21, 2019

Type of Balloon Indebtedness Plan	FY 2015 (Mar-Jun)	FY 2016	FY 2017	FY 2018	FY 2019
New Money Bonds	2	4	4	1	6
Advance Refunding Bonds	5	21	8	7	0
Current Refunding Bonds	2	1	5	1	1
<b>Total Plans Received</b>	<b>9</b>	<b>26</b>	<b>17</b>	<b>9</b>	<b>7</b>

**FY 2015 (March - June 2015)**

Entity	Bonds	Amount	Approved (Y/N/Pending)	Issued (Y/N/Pending)	Comments
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**Requests to Issue Balloon Debt**

New Money Bonds

Lawrenceburg	General Obligation	\$ 5,000,000	Y	Y	Wrap-around debt
Maury County	General Obligation	47,000,000	Y	Y	School construction

Advance Refunding Bonds

Cocke County	General Obligation	\$ 10,000,000	Y	Y	
First Utility District of Hawkins County	Revenue	10,000,000	Y	Y	
Hawkins County	General Obligation	9,755,000	Y	Y	
Henderson County	General Obligation	9,500,000	Y	Y	
Hendersonville Utility District	Revenue	9,875,000	Y	Y	

Current Refunding Bonds

Maryville	General Obligation	\$ 10,000,000	Y	Y	
Sevierville	General Obligation	17,120,000	Y	Y	

**FY 2016**

Entity	Bonds	Amount	Approved (Y/N/Pending)	Issued (Y/N/Pending)	Comments
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**Requests to Issue Balloon Debt**

New Money Bonds

Madison Suburban Utility District	Revenue	\$ 9,250,000	Y	Y	Water lines
Selmer	General Obligation	3,650,000	Y	Y	Street and road construction
Tennessee Energy Acquisition Corporation	Revenue	850,000,000	Y	N	Prepurchase of natural gas
Wilson County	General Obligation	55,000,000	Y	Y	School construction

Advance Refunding Bonds

Alcoa	General Obligation	\$ 9,900,000	Y	Y	
Anderson County Water Authority	Revenue	7,425,000	Y	Y	
Cocke County	General Obligation	10,000,000	Y	Y	
Columbia	General Obligation	7,850,000	Y	Y	
Dyer County	General Obligation	9,975,000	Y	Y	
Fayetteville	Revenue	10,000,000	Y	Y	
First Utility District of Hawkins County	Revenue	10,000,000	Y	Y	
Harpeth Valley Utility District	Revenue	32,000,000	Y	Y	
Hawkins County	General Obligation	10,000,000	Y	Y	
Hendersonville Utility District	Revenue	7,250,000	Y	Y	
Jefferson County	General Obligation	4,275,000	Y	Y	
Johnson County	General Obligation	4,950,000	Y	Y	
Kingsport	General Obligation	34,000,000	Y	Y	
Maryville	General Obligation	3,550,000	Y	Y	
Metro Nashville Davidson County	General Obligation	425,000,000	Y	Y	
Monroe County	General Obligation	8,500,000	Y	Y	
Ocoee Utility District	Revenue	11,125,000	Y	Y	
Robertson County	General Obligation	48,550,000	Y	Y	
South Blount Utility District	Revenue	13,000,000	Y	Y	
Washington County	General Obligation	113,735,000	Y	Y	
White House Utility District	Revenue	35,000,000	Y	Y	

Current Refunding Bonds

Hardeman County	General Obligation	\$ 9,050,000	Y	Y	
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**FY 2017**

Entity	Bonds	Amount	Approved (Y/N/Pending)	Issued (Y/N/Pending)	Comments
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**Requests to Issue Balloon Debt**

New Money Bonds

Greenville (Airport)	General Obligation	\$ 2,210,000	Y	Y	Airport improvements
Memphis Shelby County Airport	Revenue	110,000,000	Y	Y	Airport improvements
Tennessee Energy Acquisition Corp	Revenue	850,000,000	Y	Y	Prepurchase of natural gas
Wilson County	General Obligation	21,500,000	Y	Y	School construction

Advance Refunding Bonds

Anderson County	General Obligation	\$ 9,250,000	Y	Y	
Claiborne Utility District	Revenue	8,805,000	Y	Y	
Elizabethton	General Obligation	6,500,000	Y	Y	
Henry County	General Obligation	2,275,000	Y	N	
Johnson City	General Obligation	20,740,000	Y	Y	
Knox Chapman Utility District	Revenue	1,800,000	Y	Y	
Poplar Grove Utility District	Revenue	4,800,000	Y	Y	
Watauga River Utility District	Revenue	8,600,000	Y	Y	

Current Refunding Bonds

Hardeman County	General Obligation	\$ 9,100,000	Y	Y	
Lawrenceburg	General Obligation	4,500,000	Y	Y	
Monroe County	General Obligation	9,850,000	Y	Y	
Putman County	General Obligation	53,200,000	Y	Y	
West Wilson Utility District	Revenue	4,200,000	Y	Y	

**FY 2018**

Entity	Bonds	Amount	Approved (Y/N/Pending)	Issued (Y/N/Pending)	Comments
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**Requests to Issue Balloon Debt**

New Money Bonds

Henry County	General Obligation	\$ 8,885,000	Y	Y	12-yr maturity; school construction
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Advance Refunding Bonds

Clarksville	Revenue	\$ 26,165,000	Y	Y	
Clarksville	Revenue	53,660,000	Y	Y	
Gibson County	General Obligation	4,325,000	Y	Y	
Manchester	General Obligation	9,300,000	Y	Y	
Maryville	Revenue	33,450,000	Y	Y	
Memphis & Shelby County Sports Authority	Revenue	80,135,000	Y	N	
North West Utility District	Revenue	10,000,000	Y	Y	

Current Refunding Bonds

Campbell County	General Obligation	\$ 8,310,000	Y	Y	
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**FY 2019**

Entity	Bonds	Amount	Approved (Y/N/Pending)	Issued (Y/N/Pending)	Comments
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**Requests to Issue Balloon Debt**

New Money Bonds

Jackson	Lease Agreement	\$ 9,718,970	Pending	N/A	New Markets Tax Credit Program- School Construction
Madison County	Lease Agreement	17,000,000	Pending	N/A	New Markets Tax Credit Program - School Construction
Metro Development and Housing Authority	Revenue	25,000,000	N	Y	Tax Increment Financing - Approval requested after adoption of resolution
Metro Nashville Sports Authority	Revenue	225,000,000	Y	Pending	Major League Soccer Stadium Construction
Tennergy Corporation	Revenue	1,000,000,000	Y	Pending	Prepurchase of natural gas
Tennessee Energy Acquisition Corporation	Revenue	900,000,000	Y	Y	Prepurchase of natural gas

Current Refunding Bonds

Hawkins County	General Obligation	\$ 22,700,000	Y	Pending	
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JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

MEMORANDUM

To: Tennessee State Funding Board and staff

From: Ann Butterworth, Assistant Secretary

A handwritten signature in blue ink, appearing to be "AB", enclosed in a blue circle.

Date: June 19, 2019

Re: Disclosure Guidelines

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At its April 11, 2019 meeting, the State Funding Board directed that proposed Guidelines drafted as directed by Public Chapter No. 6, Acts of 2019, be issued for public comment for at least 30 days. The comment period was May 17, 2019 and ended at close of business on June 17, 2019. The law firm of Bass Berry and Sims submitted comments.

Attached are a marked and a clean version of the proposed Guidelines showing changes from the distributed version which is being recommended for approval. Additionally attached are a copy of PC 6 and a copy of the BBS comments. Note, the proposed Guidelines would give the Comptroller the authority to determine the format and method of delivery of the required reporting.

PC 6 was proposed by the Comptroller's Office in response to changes made by the Securities and Exchange Commission to Rule 15c2-12, effective February 27, 2019. Rule 15c2-12 is designed to address fraud in the municipal securities market by enhancing transparency through requiring timely access to important information. The changes to the Rule added two events requiring disclosure (incurrence of a financial obligation and events reflecting financial difficulties)(increasing the number of events from 14 to 16). Attached is the first page of the 163 page Rule Release (<https://www.sec.gov/rules/final/2018/34-83885.pdf>).

Attachments:

- Proposed Disclosure Guidelines (marked and clean)
- Public Chapter No. 6, Acts of 2019
- Bass Berry and Sims Comments
- First page of 2018 SEC Rule Release

# Tennessee State Funding Board Disclosure Guidelines

## 1. BACKGROUND

Public Chapter 6, Acts of 2019 (“Act”) promotes transparency by requiring Public Entities to disclose financial obligations, including bank loans, and events of default in accordance with Securities and Exchange Commission (“SEC”) Rule 15c2-12 and guidelines approved by the State Funding Board (“Board”) for events of default. Public Entities with publicly-traded debt are required by the Act to report financial obligations and defaults or other events which reflect financial difficulties on the Electronic Municipal Market Access (“EMMA”) website of the Municipal Securities Rulemaking Board (“MSRB”). Public Entities, that do not issue publicly-traded debt, are required to report events of default to the Office of the Comptroller of the Treasury in accordance with these Guidelines adopted by the State Funding Board on June 27, 2019.

## 2. REPORTING

The Act requires a Public Entity with publicly-traded debt that is subject to any post February 27, 2019 Continuing Disclosure Agreement (“CDA”) to ensure notice of financial obligations and events of default as described in Sections 3 of these Guidelines be reported within ten (10) business days of the event’s occurrence on the MSRB’s EMMA website in accordance with the requirements of SEC Rule 15c2-12. These Guidelines require the reporting be performed as prescribed by the Public Entity’s CDA, SEC Rule 15c2-12, and instructions found on the MSRB’s EMMA website (<https://emma.msrb.org>).

The Act requires a Public Entity that has no outstanding publicly-traded debt to report events of default to the Comptroller’s Office within ten (10) business days of the event’s occurrence. The reporting format and method of delivery will be as prescribed by the Comptroller’s Office.

Compliance by an industrial development corporation (“IDC”) incorporated pursuant to Title 7, Chapter 53 of the T.C.A. with the Board’s Guidelines for Debt Reporting by IDCs as to notices of default will be deemed compliance with these Guidelines.

In the case of Financial Obligations issued or incurred by a public building authority (“PBA”) incorporated pursuant to Title 12, Chapter 10 of the T.C.A. to provide capital financing for a Public Entity other than the PBA, the portion of the guidelines related to the reporting of Events of Default shall apply to the Public Entity and not the PBA.

## 3. REPORTING ITEMS

The form shall require the Public Entity to report an Event of Default within ten (10) business days of the event, clearly describing the Financial Obligation and include a copy of the underlying documents (such as a loan agreement or similar documents for a Debt Obligation and the ISDA Agreements for derivatives).

## 4. DEFINITIONS

a. "Public Entity" - means the State, a state agency, a local government, a local government instrumentality, or any other authority, board, district, instrumentality, or entity created by the State, a state agency, local government, a local government instrumentality, or combination, thereof.

b. "Financial Obligation" - means a

(A) Debt Obligation;

(B) derivative instrument entered in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(C) a guarantee of (A) or (B).

The term "Financial Obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with 17 CFR 240.15c2-12 under the Securities and Exchange Act of 1934.

c. "Debt Obligation" - means a Public Entity's debt, debt-like and debt related obligations (including lease arrangements that facilitate financings), but does not include a Public Entity's ordinary financial and operating liabilities incurred in the normal course of the Public Entity's business.

d. "Derivative" - means an interest rate agreement, as defined in TCA § 9-22-103, and such other transactions related to Debt Obligations as identified by the Board.

e. "Event of Default" - means default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of a Public Entity, any of which reflect financial difficulties.

f. "Name of Financial Obligation" - means the name of the Financial Obligation as reported on the official statement or offering memorandum, loan document, or as reported in the financial statements.

g. "Type of Financial Obligation" - means bond, note, lease, loan agreement, derivative, guarantee or other description of Financial Obligation.

h. "Authorized Representative" - means the Chief Executive Officer for the Public Entity.

i. "Preparer" - means the individual who fills out the form.

j. "Organization" - means the entity the Preparer works for if not the Public Entity.

# Tennessee State Funding Board Disclosure Guidelines

## 1. BACKGROUND

Public Chapter 6, Acts of 2019 (~~the~~ “Act”) promotes transparency by requiring Public Entities ~~to~~ disclose ~~of~~ financial obligations, including bank loans, ~~etc.~~ and events of default ~~by public entities~~ in accordance with Securities and Exchange Commission (“SEC”) Rule 15c2-12 and guidelines approved by the State Funding Board (~~the~~ “Board”) for events of default. Public ~~e~~Entities with publicly-traded debt are required by the Act to report financial obligations and defaults or other events which reflect financial difficulties on the Electronic Municipal Market Access (“EMMA”) website of the Municipal Securities Rulemaking Board (“MSRB”). Public ~~e~~Entities, that do not issue publicly-traded debt, are required to report events of default to the Office of the Comptroller of the ~~T~~Treasury in accordance with these ~~the State Funding Board~~ Guidelines adopted by the State Funding Board on June 27, 2019.

## 2. REPORTING

### SEC Rule 15c2-12

The Act requires ~~the Authorized Representative of~~ a Public Entity with publicly-traded debt ~~that is subject to any p~~Post February 27, 2019 Continuing Disclosure Agreement (“CDA”) to ensure notice of financial obligations and events of default as described in Sections 3 of these Guidelines ~~subject to any Post February 27, 2019 Continuing Disclosure Agreement (CDA)~~ be reported within ten (10) business days of the event’s occurrence on the MSRB’s EMMA website in accordance with the requirements of SEC Rule 15c2-12. These Guidelines require ~~that this~~the reporting be performed as prescribed by the Public Entity’s CDA, SEC Rule 15c2-12, and instructions found on the MSRB’s EMMA website (<https://emma.msrb.org>).

### Events of Default for Public Entities that Does Not Issue Have No Outstanding Publicly-Traded Debt

The Act requires ~~the Authorized Representative of~~ a Public Entity that ~~does not issue~~has no outstanding publicly-traded debt to report events of default as described in Sections 3 of these Guidelines to the ~~the~~ Office of the Comptroller’s Office within ten (10) business days of the event’s occurrence. The reporting format and method of delivery will be as prescribed by the Comptroller’s Office.

~~If required information requires more room than on the reporting form additional information should be attached to the form.~~

For purposes of the portion of these guidelines related to the reporting of Events of Default, these guidelines shall not apply to financial obligations issued by any iCompliance by an industrial development corporation (“IDC”) incorporated pursuant to Title 7, Chapter 53 of the T.C.A. with the Board’s Guidelines for Debt Reporting by IDCs as to notices of default will be deemed compliance with these Guidelines.

In the case of ~~f~~Financial ~~e~~Obligations issued or incurred by a public building authority (“PBA”) incorporated pursuant to Title 12, Chapter 10 of the T.C.A. to provide capital financing for a Public Entity ~~(as defined below)~~ other than the PBA, the portion of the guidelines related to the reporting of Events of Default shall apply to the Public Entity and not the PBA.



### 3. REPORTING ITEMS ~~AND~~

The form shall require the Public Entity to report an Event of Default within ten (10) business days of the event, clearly describing the Financial Obligation and include a copy of the underlying documents (such as a loan agreement or similar documents for a Debt Obligation and the ISDA Agreements for derivatives).

### 4. DEFINITIONS ~~FOR REPORTING FORM~~

a. "Public Entity" - means the ~~s~~State, a state agency, a local government, a local government instrumentality, or any other authority, board, district, instrumentality, or entity created by the ~~S~~state, a state agency, local government, a local government instrumentality, or combination, thereof.

b. "Financial ~~obligation~~Obligation" - means a

(A) ~~D~~ebt ~~O~~bligation;

(B) derivative instrument entered in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(C) a guarantee of (A) or (B).

The term "~~f~~Financial ~~e~~Obligation" ~~shall does~~ not include municipal securities as to which a final official statement has been provided to the ~~Municipal Securities Rulemaking Board (MSRB)~~ consistent with 17 CFR 240.15c2-12 under the Securities and Exchange Act of 1934.

c. "Debt ~~O~~bligation" - means ~~a Public Entity's debt, debt-like and debt related obligations (including lease arrangements that operate as vehicles to facilitate financings-borrow money)~~, but does not include a Public Entity's ordinary financial and operating liabilities incurred in the normal course of the Public Entity's ~~businessbonds, notes, capital leases, loan agreements, and any other evidence of indebtedness issued, executed or assumed by a public entity.~~

d. "Derivative" - means an interest rate agreement, as defined in TCA § 9-22-103, and such other transactions related to ~~D~~ebt ~~e~~Obligations as identified by the ~~state Funding~~Board. ~~If there a derivative product or contract associated with the defaulted debt issue report the notional amount of derivative, type, and termination value. If there is a termination event for the derivate report~~

e. "Event of ~~D~~efault" - means default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of ~~a Public Entity~~the obligated person, any of which reflect financial difficulties.

f. "Name of ~~Debt-Financial Issue~~Obligation" – means the name of the ~~debt-Financial~~ issuance-~~O~~bligation as reported on the official statement or offering memorandum, loan document, or as reported in the financial statements.

g. "Type of ~~Debt-Financial~~ Obligation" - ~~means~~ direct placement, loan, or conduit to a business, conduit to government, or debt of the ~~IDC~~bond, note, lease, loan agreement, ~~derivative, guarantee~~ or other description of ~~debt-Financial e~~Obligation.

h. “Authorized Representative” – means the Chief Executive Officer for the Public Entity.

i. “Preparer” – means the individual who fills out the form.

j. “Organization” – means the entity the Preparer works for if not the Public Entity.

#### 4. Other Reporting Items

a. Authorized Representative.

b. Preparer.

e. Loan documents for debt without official statements or similar documents and ISDA Agreements for derivatives.

#### 5. Other defined Terms

a. “Authorized Representative” – The Chief Executive Officer for the Public Entity

b. “Preparer” – Individual who fills out the form

e. “Organization” – The entity the Preparer works for if not an employee of the Public Entity.



# State of Tennessee

## PUBLIC CHAPTER NO. 6

HOUSE BILL NO. 166

By Representative Hazlewood

Substituted for: Senate Bill No. 201

By Senator Massey

AN ACT to amend Tennessee Code Annotated, Section 9-21-151, relative to disclosures of financial obligations and defaults by public entities.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 9-21-151(a), is amended by adding the following new subdivisions:

( ) "Event of default" means default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties;

( ) "Financial obligation":

(A) Means:

(i) A debt obligation;

(ii) A derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(iii) A guarantee of a debt obligation or derivative instrument; and

(B) Does not include municipal securities as to which a final, official statement has been provided to the Municipal Securities Rulemaking Board (MSRB) consistent with 17 CFR 240.15c2-12 under the Securities and Exchange Act of 1934;

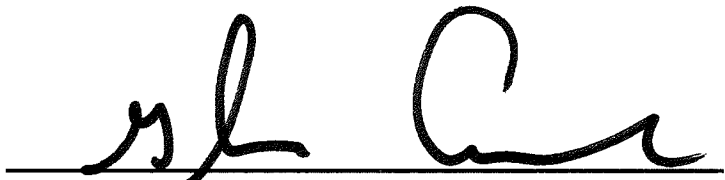
SECTION 2. Tennessee Code Annotated, Section 9-21-151(c), is amended by adding the following new subdivision:

(3) The state funding board shall require public entities to disclose financial obligations and events of default on the Electronic Municipal Market Access (EMMA) website of the MSRB and to disclose events of default to the office of the comptroller of the treasury by those public entities not required by the securities and exchange commission to disclose financial obligations and events of default on the EMMA website of the MSRB within ten (10) business days, in accordance with guidelines approved by the board.

SECTION 3. This act shall take effect upon becoming a law, the public welfare requiring it.

HOUSE BILL NO. 166

PASSED: February 28, 2019

  
\_\_\_\_\_  
GLEN CASADA, SPEAKER  
HOUSE OF REPRESENTATIVES

  
\_\_\_\_\_  
RANDY MCNALLY  
SPEAKER OF THE SENATE

APPROVED this 20<sup>th</sup> day of March 2019

  
\_\_\_\_\_  
BILL LEE, GOVERNOR



## 1. BACKGROUND

Public Chapter 6, Acts of 2019 (the “Act”) promotes transparency by requiring the disclosure of financial obligations, including bank loans, etc. and events of default by public entities in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12 and guidelines approved by the State Funding Board (the “Board”) for events of default. Public entities with publicly-traded debt are required by the Act to report financial obligations and defaults or other events which reflect financial difficulties on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB). Public entities, that do not issue publicly-traded debt, are required to report events of default to the Office of the Comptroller of the treasury in accordance with these the State Funding Board Guidelines.

## 2. REPORTING

### SEC Rule 15c2-12

The Act requires the Authorized Representative of a Public Entity with publicly-traded debt that is subject to any Post February 27, 2019 Continuing Disclosure Agreement (CDA) to ensure notice of financial obligations and events of default ~~subject to any Post February 27, 2019 Continuing Disclosure Agreement (CDA)~~ be reported within ten (10) business days of the event’s occurrence on the MSRB’s EMMA website in accordance with the requirements of SEC Rule 15c2-12. These Guidelines require that this reporting be performed as prescribed by the Public Entity’s CDA, SEC Rule 15c2-12, and instructions found on the MSRB’s EMMA website (<https://emma.msrb.org>).

### Events of Default for Public Entities that ~~Does Not Issue~~ Have No Outstanding Publicly-Traded Debt

The Act requires the Authorized Representative of a Public Entity that ~~does not issue~~ has no outstanding publicly-traded debt report events of default as described in Sections 3 of these Guidelines to the Office of the Comptroller within 10 days of the event. The reporting format and method of delivery will be as prescribed by the Comptroller’s Office.

If required information requires more room than on the reporting form additional information should be attached to the form.

For purposes of the portion of these guidelines related to the reporting of Events of Default, these guidelines shall not apply to financial obligations issued by any industrial development corporation (“IDC”) incorporated pursuant to Title 7, Chapter 53 of the T.C.A. or health, educational and housing facility corporation (“HEHC”) incorporated pursuant to Title 48, Chapter 101, Part 3 of the T.C.A. to provide capital financing for a public, private or nonprofit entity other than the IDC or HEHC. [We note that IDC’s are already subject to a default-reporting regime.]

In the case of financial obligations issued or incurred by a public building authority (“PBA”) incorporated pursuant to Title 12, Chapter 10 of the T.C.A. to provide capital financing for a Public Entity (as defined below) other than the PBA, the portion of the guidelines related to the reporting of Events of Default shall apply to the Public Entity and not the PBA.

## 3. REPORTING ITEMS AND DEFINITIONS FOR REPORTING FORM

a. "Public Entity" - means the state, a state agency, a local government, a local government instrumentality, or any other authority, board, district, instrumentality, or entity created by the state, a state agency, local government, a local government instrumentality, or combination, thereof.

b. "Financial obligation" - means a

(A) debt obligation;

(B) derivative instrument entered in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(C) a guarantee of (A) or (B).

The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board (MSRB) consistent with 17 CFR 240.15c2-12 under the Securities and Exchange Act of 1934.

c. "Debt obligation" - means a Public Entity's debt, debt-like and debt related obligations (including lease arrangements that operate as vehicles to borrow money), but does not include a Public Entity's ordinary financial and operating liabilities incurred in the normal course of the Public Entity's business bonds, notes, capital leases, loan agreements, and any other evidence of indebtedness issued, executed or assumed by a public entity. [This revision tracks precisely with the definition of debt obligation in the 15c2-12 Release, and avoids terms like "capital lease" which will soon be discontinued.]

d. "Derivative" - means an interest rate agreement, as defined in TCA § 9-22-103, and such other transactions related to debt obligations as identified by the state Funding Board. If there a derivative product or contract associated with the defaulted debt issue report the notional amount of derivative, type, and termination value. If there is a termination event for the derivate report [These two sentences are missing words. The notice requirements can be handled in the reporting form itself.]

e. "Event of default" - means default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of a Public Entity~~the obligated person~~, any of which reflect financial difficulties.

f. "Name of Debt Issue" – means the name of the debt ~~issuance~~obligation as reported on the official statement or offering memorandum, loan document, or as reported in the financial statements.

g. "Type of Debt" – ~~direct placement, loan, or conduit to a business, conduit to government, or debt of the IDC~~bond, note, lease, loan agreement or other description of debt obligation. [The deleted language appears to be a hold-over from the IDC reporting guidelines. The proposed types of debt generally follow form CT-0253.]

#### 4. Other Reporting Items

a. Authorized Representative.

b. Preparer.

c. Loan documents for debt without official statements or similar documents and ISDA Agreements for derivatives.

5. Other defined Terms

a. “Authorized Representative” - The Chief Executive Officer for the Public Entity

b. “Preparer” – Individual who fills out the form

c. “Organization” – The entity the Preparer works for if not an employee of the Public Entity.

With regard to the Form of Report, we suggest prominently including the definition of “event of default” somewhere on the page to remind the preparer that the term “event of default” applied to a much broader list of occurrences than just a technical event of default. We also suggest changing each reference to “Debt Issue” to “Debt Obligation” to maintain definitional consistency.

<https://www.sec.gov/rules/final/2018/34-83885.pdf>

*Conformed to Federal Register version.*

**SECURITIES AND EXCHANGE COMMISSION**

**17 CFR Part 240**

**[Release No. 34-83885; File No. S7-01-17]**

**RIN 3235-AL97**

**Amendments to Municipal Securities Disclosure**

**AGENCY:** Securities and Exchange Commission.

**ACTION:** Final rule.

**SUMMARY:** The Securities and Exchange Commission (“Commission” or “SEC”) is adopting amendments to the Municipal Securities Disclosure Rule under the Securities Exchange Act of 1934 (“Exchange Act”). The amendments add transparency to the municipal securities market by increasing the amount of information that is publicly disclosed about material financial obligations incurred by issuers and obligated persons. Specifically, the amendments revise the list of event notices that a broker, dealer, or municipal securities dealer (each a “dealer,” and collectively, “dealers”) acting as an underwriter (“Participating Underwriter”) in a primary offering of municipal securities with an aggregate principal amount of \$1,000,000 or more (subject to certain exemptions set forth in the Rule) (an “Offering”) must reasonably determine that an issuer or an obligated person has undertaken, in a written agreement or contract for the benefit of holders of the municipal securities, to provide to the Municipal Securities Rulemaking Board (“MSRB”).

**DATES:** Effective Date: October 30, 2018.

Compliance Date: February 27, 2019.

# Tennessee State Funding Board



## Debt Management Policy

Prepared by  
Office of State and Local Finance



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# Debt Management Policy

## Introduction

Debt management policies provide written guidance about the amount and type of debt issued by governments, the debt issuance process, and the management of the debt portfolio. A debt management policy tailored to the needs of the State of Tennessee (the “State”) and the Tennessee State Funding Board (the “Board”): (1) identifies policy goals and demonstrates a commitment to long-term financial planning, including a multi-year capital plan; (2) improves the quality of decisions concerning debt issuance; and (3) provides justification for the structure of debt issuance. Adherence to its debt management policy signals to rating agencies and the capital markets that the State is well-managed and able to meet its obligations in a timely manner.

Debt levels and their related annual costs are important financial considerations that impact the use of current resources. An effective debt management policy provides guidelines for the State to manage its debt program in line with those resources.

The debt program for the State includes general obligation debt issued by the State for which the State has pledged its full faith and credit for the payment of both principal and interest. The Board is the entity authorized to issue general obligation debt of the State and issues all general obligation debt in the name of the State pursuant to authorization by the General Assembly. The Board is comprised of the Governor, the State Comptroller of the Treasury, the Secretary of the State, the State Treasurer and the Commissioner of Finance and Administration.

The Office of State and Local Finance (the “OSLF”) serves as staff to the Board. Both the Director of the OSLF and the Assistant to the Comptroller for Public Finance serve as the Assistant Secretary to the Board.

## Goals and Objectives

The Board is establishing this Debt Management Policy (the “Policy”) as a tool to ensure that financial resources are sufficient to fulfill the State’s long-term capital plan. In addition, this Policy helps to ensure that financings undertaken by the Board satisfy certain clear objective standards designed to protect the State’s financial resources and to meet its long-term capital needs.

### A. The goals of this Policy

- To document responsibility for the oversight and management of debt-related transactions;
- To define the criteria for the issuance of debt;
- To define the types of debt approved for use within the constraints established by the General Assembly;
- To define the appropriate uses of debt;
- To define the criteria for the refunding of debt or the use of alternative debt structures; and
- To minimize the cost of issuing and servicing debt.

## **B. The objectives of this Policy**

- To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;
- To identify legal and administrative limitations on the issuance of debt;
- To ensure the legal use of the Board's debt issuance authority;
- To maintain appropriate resources and funding capacity for present and future capital needs;
- To protect and enhance the State's credit rating;
- To evaluate debt issuance options;
- To promote cooperation and coordination with other stakeholders in the financing and delivery of services;
- To manage interest rate exposure and other risks; and
- To comply with Federal Regulations, laws of the state of Tennessee, and generally accepted accounting principles ("GAAP").

## **Debt Management/General**

### **A. Purpose and Use of Debt Issuance**

- Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State (including Title 9, Chapter 9, of the TCA and various bond authorizations enacted by the General Assembly of the State), pursuant to resolutions adopted by the Board.
- Debt may be issued for public purposes of 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.
- Debt may be used to finance capital projects authorized by the General Assembly through Bond Acts, included in the Capital Budget and/or approved by the State Building Commission and to fund discount and costs of issuance, limited to 2.5% of the amount allocated in the bond authorizations.
- Debt may be authorized to fund highway improvements. Such authorization is used as a cash management tool and gives budget authority to enter into various contracts for highway capital improvements. The projects are not constructed until the current revenue is available to pay the State's share of the projects. Highway bond authorization is canceled once projects have been funded with current funds.
- Debt may only be used to fund operating expenditures when such debt is repaid in the fiscal year issued.
- Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs of projects as authorized by the bond authorization and a resolution of the Board.
- Bonds may be issued to refinance outstanding debt.

## B. Debt Capacity Assessment

- The “debt service coverage” test (the “Test”) shall be used to compute the maximum principal amount of bonds that the Board can issue after July 1, 2013. The first step of the Test is to calculate the amount necessary to pay the maximum annual debt service in the then current or any future fiscal year on all outstanding bonds and bonds proposed to be issued (the “Debt Service Amount”). The second and final step of the Test is compare the Debt Service Amount with the amount of total state tax revenue (as defined in Section 9- 9-104, of the TCA) that was allocated to the general fund, debt service fund and highway fund for the immediately preceding fiscal year (the “Total Tax Revenue Amount”). If the Debt Service Amount is not greater than ten percent (10%) of the Total Tax Revenue Amount, then the bonds may be issued.
- If the Debt Service Amount is six percent (6%) or more of the Total Tax Revenue Amount, the Board shall cause a debt capacity study to be conducted on an annual basis until the Debt Service Amount drops below six percent (6%) of the Total Tax Revenue Amount.

## C. Federal Tax Status

- **Tax-Exempt Debt** – The Board will use its best efforts to maximize the amount of debt sold under this Policy using tax-exempt financing based on the assumptions that tax- exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints;
- **Taxable Debt** – The Board will sell taxable debt when necessary to finance projects not eligible to be financed with tax-exempt debt. However, the Board may finance taxable projects within the permitted limits of tax-exempt financings whenever possible.

## D. Legal Limitations on the Use of Debt

- No debt obligation, except as shall be repaid within the fiscal year of issuance, shall be sold to fund the current operation of any state service or program.
- The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized.
- Debt may only be issued under a bond authorization for which the General Assembly has appropriated sufficient funds to pay the first year’s obligation of principal and interest, and when the Board has determined that such funds are available.
- No debt may be issued for a period longer than the useful life of the capital project it is funding.

## Types of Debt

### A. Bonds

**Security** – Pursuant to Section 9-9-105, of the TCA, the Board may issue general obligation bonds, which are direct general obligations of the State payable as to both principal and interest from any funds or monies of the State from whatever source derived. The full faith and credit of the State is pledged to the payment of principal of and interest on all general obligation bonds. Subject only to Section 9-9-104(a), all general obligation debt constitutes 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.

These bonds may be structured as:

- **Fixed Interest Rate Bonds** – Bonds that have an interest rate that remains constant throughout the life of the bond.
  - Serial Bonds
  - Term Bonds
- **Variable Interest Rate Bonds** – Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.
- **Capital Appreciation Bonds** – A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded interest rate until maturity, at which time the investor receives a single payment representing both the initial principal amount and the total investment return.

## B. Short-Term Debt

Pending the issuance of the definite bonds authorized by the bond authorizations, the Board may issue short-term debt from time to time as needed to fund projects during the construction phase. Such debt shall be authorized by resolution of the Board. Short-term debt may be used for the following reasons:

- To fund projects with an average useful life of ten years or less. The Board may provide that the short-term debt issued may mature more than five years from the date of issue of the original short-term debt; provided, that an amortization schedule of principal repayment is established for the project funded by the short-term debt and provisions are made such that any short-term debt or renewal of short-term debt or bond refunding such short-term debt attributed to the financing of such project shall be redeemed or retired no later than the useful life of the project and no later than either twenty-five years from the date of such original short-term debt or twenty years from the date the project is completed and placed into full service, whichever is earlier.
- To fund projects during the construction phase of the projects.
- To fund cash flow deficits when repaid in the fiscal year in which the debt was issued.

Short-term debt is typically issued during the construction period to take advantage of the lower short-term interest rates and then refunded with bonds once projects are completed. The short-term debt may be structured as Bond Anticipation Notes (“BANs) or short-term obligations that will be repaid by proceeds of a subsequent long-term bond issue. The short-term debt may include:

- **Bond Anticipation Notes (“BANs”)** – BANs are short term obligations that will be repaid by proceeds of a subsequent long-term bond issue.
- **Commercial Paper (“CP”)** – CP is a form of BANs that has a maturity up to 270 days, may be rolled to a subsequent maturity date. It can be issued incrementally as funds are needed.
- **Fixed Rate Notes** – Notes issued for a period less than three years at a fixed interest rate.

- **Variable Rate Notes** – Notes issued for a period less than three years which bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.
- **Revolving Credit Facility** – A form of BANs involving the extension of a line of credit from a bank. The bank agrees that the revolving credit facility can be drawn upon incrementally as funds are needed. The draws upon the line of credit may bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rate shall be included in the authorizing credit agreement.
- **Tax and Revenue Anticipation Notes (“TRANs”)** - TRANs are short term notes secured by a pledge of taxes and other general fund revenues in the current fiscal year of the State. TRANs, if issued, will constitute direct obligations of the State backed by the full faith and credit of the State. All TRANs will be redeemed in the same fiscal year in which they are issued.

## **Debt Management Structure**

The Board shall establish by resolution all terms and conditions relating to the issuance of debt and will invest all proceeds pursuant to the terms of the Board’s authorizing resolution and the State’s investment policy.

### **A. Term**

The term of any debt (including refunding debt) used to purchase or otherwise obtain or construct any equipment, goods, or structures shall have a reasonably anticipated lifetime of use equal to or less than the average useful life of the project. The final maturity of the bond debt should be limited to 20 years after the date of issuance or the date the project is deemed complete or placed in service, whichever is earlier unless otherwise permitted by the Bond Act and approved by the Board in the Bond Resolution.

### **B. Debt Service Structure**

Debt issuance shall be planned to achieve level principal over a twenty-year period unless otherwise specified in the bond act. The Board shall avoid use of bullet or balloon maturities; this does not include term bonds with mandatory sinking fund requirements.

No debt shall be structured with other than at least equal principal repayment unless such structure is specifically approved by unanimous vote of the members of the Board.

### **C. Call Provisions**

When issuing new debt, the structure may include a call provision that occurs no later than ten years from the date of delivery of the bonds. Call features should be structured to provide the maximum flexibility relative to cost. The Board will avoid the sale of long-term non-callable bonds absent careful evaluation by the Board with respect to the value of the call option.

### **D. Original Issuance Discount/Premium**

Bonds sold with original issuance discount/premium are permitted with the approval of the Board. The Board is authorized to sell bonds in amounts not to exceed 2.5% of the amount stated in the bond act for funding discounts.

## Refunding Outstanding Debt

The Board may refinance outstanding bonds by issuing new bonds. The Board and the Board's staff with assistance from the Board's financial advisor (the "Financial Advisor") shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The Financial Advisor will conduct an analysis of all refunding candidates at least semiannually to identify potential refunding candidates from the outstanding bond maturities. The Board will consider the following issues when analyzing possible refunding opportunities:

### A. Refunding Opportunities

The bonds will be considered for refunding when:

- In the case of an advance refunding:
  - (1) The refunding results in aggregate present value savings of at least 4% per series of refunding bonds as certified to the Board by the Financial Advisor to the Board, or the option value per maturity of refunded bonds exceeds 70% as certified to the Board by the Financial Advisor to the Board; and
  - (2) the aggregate present value savings must be equal to or greater than twice the cost of issuance allocable to the refunding series.
- In the case of a current refunding:
  - (1) The refunding results in aggregate present value savings of at least [4%] per series of refunding bonds as certified to the Board by the Financial Advisor to the Board; or the aggregate present value savings per series of refunding bonds is no less than [\$1,000,000]; and
  - (2) the aggregate present value savings must be equal to or greater than twice the cost of issuance allocable to the refunding series.
  - (3) The refunding of the bonds is necessary due to a change in the use of a project that would require a change to the tax status of the Bonds; or
  - (4) A project is sold while still in its amortization period.

Any of the forgoing requirements for a current refunding can be waived by the Board after consultation with the Financial Advisor.

If a decision to refund is based on savings, then the Board will issue the refunding debt only after receipt of a certified analysis from the Financial Advisor that the market conditions at the time of the sale will still accomplish cost savings to the public.

### Present Value Savings Calculation

Unless otherwise agreed upon by the Office of State and Local Finance and the Financial Advisor, the present value savings shall be calculated for each series of refunding bonds (whether or not issued at the same time) by (i) comparing the debt service on the 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.

### **Option Value Calculation**

The Option Value analysis quantifies the projected value of the call option (ability to refund the bonds) in the future, based upon implied forward rates in the present-day yield curve. The “efficiency” of a proposed refunding is determined by comparing the present value savings associated with refunding the bonds in the current market relative to the option (future) value associated with the refunded bonds.

### **B. Term of Refunding Issues**

The bonds will have a term not extending beyond the fiscal year of the latest outstanding maturity of the originally issued debt. No backloading of debt will be permitted.

### **C. Bond Structuring**

The bonds will be structured to create proportional or level debt service savings.

### **D. Escrow Structuring**

The Board shall structure refunding escrows using legally permitted securities deemed to be prudent under the circumstances and will endeavor to utilize the least costly securities unless considerations of risk, reliability and convenience dictate otherwise. The Board will take competitive bids on any selected portfolio of securities and will award to the lowest cost provider giving due regard to considerations of risk and reliability or unless State and Local Government Series securities (“SLGS”) are purchased directly from the Federal Government. The provider must guarantee the delivery of securities except for SLGs. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Board from its own account.

### **E. Arbitrage**

The Board shall take all reasonable steps to optimize escrows and to avoid negative arbitrage in its refunding subject to 9-4-602 and 9-4-603, of the TCA. Any positive arbitrage will be rebated as necessary according to Federal guidelines (see also “Federal Regulatory Compliance and Continuing Disclosure – A. Arbitrage”).

## **Methods of Sale**

Pursuant to Section 9-9-205 and 9-9-207, of the TCA general obligation bonds issued by the Board shall be sold in such manner as may be determined and approved by the Board. Following each sale, the Office of State and Local Finance (“OSLF”) with the assistance of the Financial Advisor shall provide a report to the Board on the results of the sale.

### **A. Competitive Sale**

In a competitive sale, the Board’s bonds are posted for auction sale and awarded to the bidder providing the lowest true interest cost as long as the bid conforms to the requirements set forth in the official notice of sale. The competitive sale is the Board’s preferred method of sale.

### **B. Negotiated Sale**

While the Board prefers the use of a competitive process, the Board recognizes some bonds are best sold through negotiation. The underwriting team will be chosen, and the underwriter’s fees negotiated prior to the sale. See section below titled “Selection of Underwriting Team (Negotiated Transaction).” In its consideration of a negotiated sale, the Board will assess the following factors:

- A structure which may require a strong pre-marketing effort such as a complex transaction;

- Volatility of market conditions and whether the Board would be better served by flexibility in timing a sale;
- Size of the bond sale which may limit the number of potential bidders;
- If legal or disclosure issues make it advisable in marketing the bonds;
- Credit strength;
- Whether or not the bonds are issued as variable rate demand obligations, and
- Tax status of the bond.

### **C. Private Placement**

From time to time the Board have a need to consider privately placing its debt. Such placement shall be considered where the size is too small, the structure is too complicated for public debt issuance, the market of purchasers is limited, and/or will result in a cost savings to the Board relative to other methods of debt issuance.

## **Selection of Underwriting Team (Negotiated Transaction)**

If there is an underwriter, the Board shall require the underwriter to clearly identify itself in writing, whether in a response to a request for proposals (“RFP”) or in promotional materials provided to the Board or otherwise, as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Board with respect to that issue. The underwriter must clarify its primary role as a purchaser of securities in an arm’s-length commercial transaction and that it has financial and other interests that differ from those of the Board. The underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the Board or its designated official in advance of the pricing of the debt.

### **A. Senior Manager**

The Board with assistance from its staff and financial advisor shall select the senior manager(s) for a proposed negotiated sale. The selection criteria shall include but not be limited to the following:

- Experience in selling Tennessee debt;
- Ability and experience in managing complex transactions;
- Prior knowledge and experience with the Board;
- Willingness to risk capital and demonstration of such risk;
- Quality and experience of personnel assigned to the Board’s engagement;
- Financing ideas presented; and
- Underwriting fees.



## **B. Co-Managers**

Co-managers will be selected on the same basis as the senior manager. The number of co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the Board's bonds. The Secretary or Assistant Secretary to the Board will, at his or her discretion, affirmatively determine the designation policy for each bond issue.

## **C. Selling Groups**

The Board may use selling groups in certain transactions to maximize the distribution of bonds to retail investors. Firms eligible to be a member of the selling group, should either have a public finance department or pricing desk located within the boundaries of the State. To the extent that selling groups are used, the Secretary or Assistant Secretary of the Board at his or her discretion may make appointments to selling groups as the transaction dictates.

## **D. Underwriter's Counsel**

In any negotiated sale of the Board's debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager.

## **E. Underwriter's Discount**

The Board will evaluate the proposed underwriter's discount in comparison to other issues in the market. If there are multiple underwriters in the transaction, the Board will determine the allocation of fees with respect to the management fee, if any. The determination will be based upon participation in the structuring phase of the transaction. All fees and allocation of the management fee will be determined prior to the sale date. A cap on management fee, expenses and underwriter's counsel fee will be established and communicated to all parties by the Board. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

## **F. Evaluation of Underwriter Performance**

The Board's staff, with assistance of the Financial Advisor, will evaluate each bond sale after completion to assess the following: costs of issuance including the underwriter's compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credit.

Following each sale, the Board's staff shall provide a report to the Board (including the information contained in the paragraph above) on the results of the sale.

## **Credit Quality**

The Board's debt management activities will be conducted to receive the highest credit ratings possible, consistent with Board's financing objectives. If the State's credit ratings are downgraded below the AAA rating, the capital funding and debt strategy will immediately be reviewed and necessary steps within the Board's authority taken to avoid additional downgrades and to restore the AAA rating.

The Office of the Comptroller of the Treasury through the OSLF will be responsible for the communication of information to the rating agencies and keeping them informed of significant developments throughout the year. The OSLF will schedule rating agency calls and/or visits prior to the issuance of General Obligation bonds.

The Board through the OSLF will engage the relevant rating agencies in advance, if the Board decides to move forward with a plan of finance that includes variable rate debt, new commercial paper programs or the use of derivatives.

The Board shall apply for ratings from at least two of the three Statistical Rating Organizations (the “SRO”). The Board shall fully review the contract with the SRO and receive an engagement letter prior to submitting documentation for the rating.

## **Credit Enhancements**

The Board will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost. Only when clearly demonstrable savings can be shown shall an enhancement be utilized. The Board may consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

### **A. Bond Insurance**

The Board may purchase bond insurance when such purchase by the Board is deemed prudent and advantageous. The primary consideration shall be based on whether such insurance is less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds. For competitive sales, the purchaser of the bonds may be allowed to determine whether bond insurance will be used and will be included in the bid for the bonds and will be paid for by the purchaser of the bonds. If the Board decides to purchase insurance, it shall do so on a competitive bid basis whenever practicable. In a negotiated sale, the Board will select a provider whose bid is most cost effective and will consider the credit quality of the insurer and that the terms and conditions governing the guarantee are satisfactory to the Board.

### **B. Letters of Credit**

The Board may enter into a letter-of-credit (“LOC”) agreement when such an agreement is deemed prudent and advantageous. The Board will prepare and distribute an RFP to qualified banks or other qualified financial institutions which includes terms and conditions that are acceptable to the Board. The LOC will be awarded to the bank or financial institution providing the lowest cost bid with the highest credit quality that meets the criteria established by the State.

### **C. Liquidity**

For variable rate debt requiring liquidity facilities to protect against remarketing risk, the Board will evaluate:

- Alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and line of credit, in order to balance the protection offered against the economic costs associated with each alternative;
- Diversification among liquidity providers, thereby limiting exposure to any individual liquidity provider;
- All cost components attendant to the liquidity facility, including commitment fees, standby fees, draw fees, and interest rates charged against liquidity draws; and
- A comparative analysis and evaluation of the cost of external liquidity providers compared to the requirements for self-liquidity.

The winning bid will be awarded to the bank or financial institution providing the lowest cost with the highest credit quality that meets the criteria established by the State.

## **D. Use of Structured Products**

No interest rate agreements or forward purchase agreements will be considered unless the Board has established a policy defining the use of such products before the transaction is considered.

## **Risk Assessment**

The OSLF will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks. The OSLF will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

### **A. Change in Public/Private Use**

The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.

### **B. Default Risk**

The risk that debt service payments cannot be made by the due date.

### **C. Liquidity Risk**

The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing of short-term debt.

### **D. Interest Rate Risk**

The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issue had been fixed.

### **E. Rollover Risk**

The risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of a contract period.

### **F. Market Risk**

The risk that in the event of failed remarketing of short-term debt, the liquidity provider fails.

## **Transparency**

The Board shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. All costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens in a timely manner. Additionally, the Board will provide certain financial information and operating data by specified dates and provide notice of certain enumerated events with respect to the bonds continuing disclosure requirements as required by the U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12. The Board intends to maintain transparency by:

- Posting the Official Statement of a bond sale to the Board's website within two weeks of the closing of such sale;
- Preparing and filing with the OSLF a copy of the costs related to the issuance of a bond and other information as required by Section 9-21-151, of the TCA, within 45 days of the closing of such sale, and presenting the original of such document to the Board at its next meeting (see

also “Debt Administration – B. Post Sale”); and

- Electronically submitting through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) website the information necessary to satisfy the Board’s continuing disclosure requirements for the bonds in a timely matter (see also “Federal Regulatory Compliance and Continuing Disclosure”).

## **Professional Services**

The Board requires all professionals engaged to assist in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by the Board. This includes “soft” costs or compensations in lieu of direct payments.

### **A. Issuer’s Counsel**

The Board will enter into an engagement letter agreement with each lawyer or law firm representing the Board in a debt transaction. No engagement letter is required for any lawyer who is an employee of the Office of Attorney General and Reporter for the State of Tennessee who serves as counsel to the Board or of the Office of General Counsel, Office of the Comptroller of the Treasury, which serves as counsel to the OSLF regarding Board matters.

### **B. Bond Counsel**

Bond counsel shall be engaged through the OSLF and serves to assist the Board in all its general obligation debt issues under a written agreement.

### **C. Financial Advisor**

The Financial Advisor shall be engaged through the OSLF and serves and assists the Board on financial matters under a written agreement. However, the Financial Advisor shall not be permitted to bid on, privately place or underwrite an issue for which it is or has been providing advisory services. The Financial Advisor has a fiduciary duty including a duty of loyalty and a duty of care.

### **D. Dealer**

The Board will enter into a Dealer Agreement with the appointed CP dealer. The Dealer agrees to offer and sell the CP, on behalf of the Board, to investors and other entities and individuals who would normally purchase commercial paper.

### **E. Issuing and Paying Agent**

The Board covenants to maintain and provide an Issuing and Paying Agent at all times while the CP is outstanding. The Board will enter into an Issuing and Paying Agency Agreement with an appointed firm. The Issuing and Paying Agent will be a bank, trust company or national banking association that has trust powers.

### **F. Credit/Liquidity Provider**

The Board shall enter into a Credit/Liquidity Agreement with an appointed provider if deemed necessary or advisable for the CP. The provider shall be a bank, lending institution or the Tennessee Consolidated Retirement System (“TCRS”) that extends credit to the Board in the form of a revolving credit facility, a line of credit, a loan or a similar credit product or as a liquidity facility for CP.

## **G. Refunding Trustee**

The Refunding Trustee shall be appointed by resolution of the Board adopted prior to the issuance of any refunding bonds. The Refunding Trustee will be a bank, trust company or national banking association that provides Paying Agent or Registrar services.

## **Potential Conflicts of Interest**

Professionals involved in a debt transaction hired or compensated by the Board shall be required to disclose to the Board existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators and other issuers whom they may serve. This disclosure shall include such information that is reasonably sufficient to allow the Board to appreciate the significance of the relationships.

Professionals who become involved in a debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure provision. No disclosure is required if such disclosure would violate any rule or regulation of professional conduct.

## **Debt Administration**

### **A. Planning for Sale**

- Prior to submitting a bond resolution for approval, the Director of the OSLF (the “Director”), with the assistance of the Financial Advisor, will present to staff of the members of the Board information concerning the purpose of the financing, the estimated amount of financing, the proposed structure of the financing, the proposed method of sale for the financing, members of the proposed financing team, and an estimate of all the costs associated with the financing, and;
- In addition, in the case of a proposed refunding, proposed use of credit enhancement, or proposed use of variable rate debt, the Director will present the rationale for using the proposed debt structure, an estimate of the expected savings associated with the transaction and a discussion of the potential risks associated with the proposed structure.
- The Director (with the assistance of staff in the OSLF), Bond Counsel, Financial Advisor, along with other members of the financing team will prepare a Preliminary Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.

### **B. Post Sale**

- The Director (with the assistance of staff in the OSLF), Bond Counsel, and Financial Advisor, along with other members of the financing team will prepare an Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.
- The Financial Advisor will provide a closing memorandum with written instructions on transfer and flow of funds.
- The Director will present a post-sale report to the members of the Board describing the transaction and setting forth all the costs associated with the transaction.
- Within 45 days from closing, the Director will prepare a Form CT-0253 - “Report on Debt Obligation” outlining costs related to the issuance and other information set forth in Section 9-21-151, of the TCA, and also present the original at the next meeting of the Board, and file a



copy with the OSLF.

- The Director will establish guidelines and procedures for tracking the flow of all bond proceeds, as defined by the Internal Revenue Code, over the life of bonds reporting to the Internal Revenue Service (IRS) all arbitrage earnings associated with the financing and any tax liability that may be owed.
- The Post-Issuance Compliance (“PIC”) team will meet annually to review matters related to compliance and complete the PIC checklist.
- As a part of the PIC procedures, the Director (with the assistance of staff in the OSLF) will, no less than annually, request confirmation from the responsible departments that there has been no change in use of tax-exempt financed facilities.

## **Federal Regulatory Compliance and Continuing Disclosure**

### **A. Arbitrage**

The OSLF will comply with arbitrage requirements on invested tax-exempt bond funds. Proceeds that are to be used to finance construction expenditures are exempted from the filing requirements, provided that the proceeds are spent in accordance with requirements established by the IRS. The Board will comply with all of its tax certificates for tax-exempt financings by monitoring the arbitrage earnings on bond proceeds on an interim basis and by rebating all positive arbitrage when due, pursuant to Internal Revenue Code, Section 148. The Board currently contracts with an arbitrage consultant to prepare these calculations, when needed. The Board will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three years after the final redemption date of the transaction.

### **B. Investment of Proceeds**

Any proceeds or other funds available for investment by the Board must be invested per Section 9-9-110 of the TCA, subject to any restrictions required pursuant to any applicable bond issuance authorization. Compliance with Federal tax code arbitrage requirements relating to invested tax-exempt bond funds will be maintained.

Proceeds used to refinance outstanding long-term debt shall be placed in an irrevocable refunding trust fund with a Refunding Trustee. The investments (i) shall not include mutual funds or unit investment trusts holding such obligations, (ii) are rated not lower than the second highest rating category of both Moody’s Investors Service, Inc. and Standard and Poor’s Global rating services and (iii) shall mature and bear interest at such times and such amounts as will be sufficient without reinvestment, together with any cash on deposit, to redeem the bonds to be refunded and to pay all interest coming due on the bonds to be refunded.

### **C. Disclosure**

The Board will disclose on EMMA the State’s audited Comprehensive Annual Financial Report as well as certain financial information and operating data required by the continuing disclosure undertakings for the outstanding bonds no later than January 31<sup>st</sup> of each year. The Board will timely disclose any failure to provide required annual financial information by January 31<sup>st</sup>. The Board will also, in accordance with the continuing disclosure undertakings, disclose on EMMA within ten business days after the occurrence of any of the following events relating to the bonds to which the continuing disclosure undertakings apply:

- Principal and interest payment delinquencies
- Nonpayment-related defaults, if material
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers or their failure to perform
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of such bonds or other material events affecting the tax status of such bonds
- Modifications to rights of bond holders, if material
- Bond calls, if material, and tender offers
- Defeasances
- Release, substitution or sale of property securing the repayment of the bonds, if material
- Rating changes
- Bankruptcy, insolvency, receivership, or similar event of the State
- Consummation of a merger, consolidation, or acquisition of the issuer or sale of all or substantially all of the assets of the Board, other than in the course of ordinary business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- Appointment of successor trustee or the change of name of a trustee, if material
- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

### **Generally Accepted Accounting Principles (GAAP)**

The Board will comply and prepare its financial reports in accordance with the standard accounting practices adopted by the Governmental Accounting Standards Board and with the accounting policies established by the department of finance and administration when applicable.

### **Review of the Policy**

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The Board maintains the right to modify these guidelines and may make exceptions to any of them at any time to the extent that the execution of such debt achieves the Board's goals.

This policy will be reviewed by the Board no less frequently than annually. At that time, the Director will present any recommendations for any amendments, deletions, additions, improvement or clarification.

## **Adoption of the Policy**

After a public hearing on August 24, 2011, the Board adopted the Policy on September 8, 2011, effective September 8, 2011.

After a public hearing on September 16, 2013, the Board adopted the amended Policy on September 16, 2013, effective September 16, 2013.

After a public hearing on May 11, 2017, the Board adopted the amended Policy on May 11, 2017, effective May 11, 2017.

After a public hearing on March 2, 2018, the Board adopted the amended Policy on March 2, 2018, effective March 2, 2018.

After a public hearing on June 27, 2019, the Board adopted the amended Policy on June 27, 2019. Effective June 27, 2019.

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Secretary  
Tennessee State Funding Board

**Annual Review**

The Board has reviewed and accepted the Debt Management Policy on:

October 8, 2014

November 19, 2015

**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 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, June 23, 2015, June 9, 2016, June 22, 2017, and July 17, 2018, 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 (the “**General Obligation Bonds**”) 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) 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 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.

(f) 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 for the purposes set forth in Section 1 hereof (the "**Bonds**"). 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:

- (i) the matters provided in this Section and Sections 3, 5, 6 and 7 hereof, and
- (ii) any other matters and provisions deemed advisable by such Authorized Officer and not materially in conflict herewith.



(d) 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.

(e) 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 not to exceed \$150,000,000, (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, 2018 Series A and 2018 Refunding Series B, 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: Barclays Capital Inc.; BofA Securities, Inc. (aka BofA Merrill Lynch); Citigroup Global Markets Inc.; FTN Financial Capital Markets, JPMorgan Securities LLC; Morgan Stanley & Co., LLC; Piper Jaffray & Co.; PNC Capital Markets LLC; Raymond James & Associates, Inc.; UBS Financial Services Inc.; and Wells Fargo Securities, LLC. In consideration of 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, 2016 Series A, 2016 Refunding Series B and 2016 Refunding Series C (Federally Taxable), 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) The portion of any premium paid by the Purchasers for each series of Bonds which is not applied as described in subsection (b) 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.

(d) 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.

(e) 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 (d) above, the related bond authorizations shall be accounted for as issued to the extent of the amounts so applied.

SECTION 8. 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 State's financial advisor in the case of Bonds sold by competitive sale, or the Purchasers in the case of Bonds sold by negotiated sale, shall be responsible for timely applying for the CUSIP identification numbers as required by Rule G-34 promulgated by the Municipal Securities Rulemaking Board.

SECTION 9. 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, 2018 Series A and 2018 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 (including the addition of two additional "Notice Events" required by the amendments to Securities and Exchange Commission Rule 15c2-12 for continuing disclosure undertakings entered into on or after February 27, 2019), 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 10. 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 11. 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 12. 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 13. 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 14. 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 15. Effectiveness of this Resolution. This Resolution shall be in full force and effect from and after its passage.

Adopted this \_\_\_\_\_ day of June, 2019.

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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  
 2019 SERIES \_\_ [(FEDERALLY TAXABLE)]

Registered R19\_\_-[maturity]-[number] Registered \$ \_\_\_\_\_

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
_____, 2019	_____%	_____, ____	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.* Prior to \_\_\_\_\_, 20\_\_\_\_, the Bonds are subject to redemption prior to their stated maturities at the option of the State, at any time as a whole or in part, from time to time, in any order of maturity as determined by the State, at a redemption price equal to the Make-Whole Redemption Price (as defined below).

The “Make-Whole Redemption Price” of any Bonds to be redeemed is an amount equal to the greater of

- (a) (i) 100% of the principal amount of such Bonds or
- (b) (ii) the sum of the present value of the remaining scheduled payments of principal and interest 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 semiannual basis to the date on which such Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below)

plus \_\_\_\_\_ (\_\_\_\_) basis points; plus, in each case, accrued and unpaid interest on such Bonds on such 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 \_\_\_\_, 2019, including as a part thereof a Series Certificate executed and delivered on \_\_\_\_\_, 2019 (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]. 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.

**STATE OF TENNESSEE**  
**GENERAL OBLIGATION BONDS**  
**\$154,355,000 2018 SERIES A**  
**\$35,415,000 2018 REFUNDING SERIES B**

**Dated: Date of Delivery**

**Due: As shown on the inside front cover**

This Official Statement has been prepared by the State of Tennessee (the "State") to provide information relating to the State's General Obligation Bonds, 2018 Series A (the "Series A Bonds"), and 2018 Refunding Series B (the "Series B Bonds", and collectively with the Series A Bonds, the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read the Official Statement in its entirety.

<b>The Bonds</b>	Interest on the Bonds is payable semi-annually February 1 and August 1, commencing August 1, 2018.  Interest rates and reoffering yields as shown on inside front cover.  Fully registered bonds issued in denominations of \$5,000 or any integral multiple thereof.  See "THE BONDS" herein.
<b>Redemption</b>	See "THE BONDS – Redemption" herein
<b>Security</b>	Direct general obligations; pledge of full faith and credit. See "SECURITY FOR THE BONDS" herein.
<b>Ratings</b>	Fitch: AAA Moody's: Aaa S&P: AAA. See "RATINGS" herein.
<b>Book-Entry Only System</b>	The Depository Trust Company will act as securities depository for the Bonds. See "THE BONDS" and "Appendix D – Book-Entry Only System" herein.
<b>Tax Exemption</b>	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.
<b>Issuer's Bond Counsel</b>	Hawkins Delafield & Wood LLP, New York, New York.

*The Bonds are offered when, as and if issued and received by the Purchasers 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. The Bonds are expected to be available through the facilities of The Depository Trust Company on or about May 3, 2018.*

April 18, 2018



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

**STATE OF TENNESSEE**

**GENERAL OBLIGATION BONDS  
\$154,355,000 2018 SERIES A**

<b>Due</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP** 880541</b>	<b>Due</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP** 880541</b>
February 1, 2019	\$ 7,715,000	5.00%	1.590%	YE1	February 1, 2029	\$ 7,720,000	5.00%	2.420%	* YQ4
February 1, 2020	7,720,000	5.000	1.700	YF8	February 1, 2030	7,720,000	5.000	2.470	* YR2
February 1, 2021	7,720,000	5.000	1.830	YG6	February 1, 2031	7,715,000	5.000	2.520	* YS0
February 1, 2022	7,720,000	5.000	1.940	YH4	February 1, 2032	7,715,000	5.000	2.580	* YT8
February 1, 2023	7,720,000	5.000	2.050	YJ0	February 1, 2033	7,715,000	5.000	2.640	* YU5
February 1, 2024	7,720,000	5.000	2.120	YK7	February 1, 2034	7,715,000	5.000	2.700	* YV3
February 1, 2025	7,720,000	5.000	2.190	YL5	February 1, 2035	7,715,000	5.000	2.740	* YW1
February 1, 2026	7,720,000	5.000	2.270	YM3	February 1, 2036	7,715,000	5.000	2.750	* YX9
February 1, 2027	7,720,000	5.000	2.320	YN1	February 1, 2037	7,715,000	5.000	2.800	* YY7
February 1, 2028	7,720,000	5.000	2.370	YP6	February 1, 2038	7,715,000	5.000	2.820	* YZ4

\* Priced to call date of February 1, 2028

**GENERAL OBLIGATION BONDS  
\$35,415,000 2018 REFUNDING SERIES B**

<b>Due</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP** 880541</b>
August 1, 2019	\$ 7,200,000	4.00%	1.640%	ZA8
August 1, 2020	7,145,000	4.000	1.750	ZB6
August 1, 2021	7,090,000	4.000	1.880	ZC4
August 1, 2022	7,025,000	4.000	1.980	ZD2
August 1, 2023	6,955,000	4.000	2.100	ZE0

\*\*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 State of Tennessee nor any fiscal agent thereof 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*  
Cindy Liddell, Program Accountant, Office of State and Local Finance  
Michael Mercer, Program Accounting Analyst, 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, New York, New York

### **FINANCIAL ADVISOR**

PFM Financial Advisors LLC, Memphis, Tennessee

This Official Statement does not constitute a contract or agreement between the State or 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. 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 Purchasers 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 PURCHASERS 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**  
**GENERAL OBLIGATION BONDS**  
**\$154,355,000 2018 SERIES A**  
**\$35,415,000 2018 REFUNDING SERIES B**

**INTRODUCTION**

This Official Statement, which includes the cover page and the inside front 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 \$154,355,000 General Obligation Bonds, 2018 Series A (the “Series A Bonds”), and \$35,415,000 General Obligation Bonds, 2018 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 March 2, 2018. The Series A Bonds are being issued to (i) fund certain capital projects of the State, (ii) provide for the retirement at maturity of a portion of the State’s outstanding general obligation commercial paper (“CP”) issued to fund certain capital projects of the State, and (iii) fund certain costs of issuance of the Series A Bonds. The Series B Bonds are being issued to (i) refund certain of the State’s outstanding general obligation bonds and (ii) fund certain costs of issuance of the Series B Bonds. See “APPLICATION OF BOND PROCEEDS AND PLAN OF REFUNDING”.

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

**THE BONDS**

**Description**

The Bonds will be dated the date of their delivery. The Bonds will mature as shown on the inside front cover page and will bear interest payable semi-annually on February 1 and August 1 of each year, commencing August 1, 2018, at the rates per annum as shown on the inside front cover page. 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 preceding 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.

**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 Series A Bonds maturing on or after February 1, 2029 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 February 1, 2028 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.

The Series B Bonds are not subject to redemption prior to their respective stated maturities.

*Selection of the 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 the State by lot. For so long as a book-entry only system is in effect with respect to such Bonds and DTC or a successor securities repository is the sole registered owner of such Bonds, in the event of a redemption of less than all of the Bonds of a maturity of a series, the particular ownership interests of the Bonds of such maturity to be redeemed shall be selected by DTC and Direct DTC Participants and Indirect DTC Participants (all as defined in Appendix D hereto), or by any such successor securities depository or any other intermediary, in accordance with their respective operating rules and procedures. In the event of a partial redemption, DTC's rules and procedures currently provide for the redemption to be processed by random lottery. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, or any other intermediary, to make such selection, or to make or fail to make any such selection in any particular manner, 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; Conditional Notice.* 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 of the State's 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.

The actual general obligation bonds that will comprise the Refunded Bonds, which may consist of any or all of the bonds listed below, will be determined by the State at the time of sale of the Series B Bonds, based upon then-prevailing market conditions.

**Series B Refunded Bonds**

<b>Series</b>	<b>Maturity Date</b>	<b>Outstanding Principal Amount</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
2010 B	8/1/2019	\$ 7,645,000	8/1/2018	100%
	8/1/2020	7,535,000	8/1/2018	100
	8/1/2021	7,415,000	8/1/2018	100
	8/1/2022	7,310,000	8/1/2018	100
	8/1/2023	7,230,000	8/1/2018	100
		<u>\$ 37,135,000</u>		

Upon initial delivery of the Series B Bonds, the State Funding Board will enter into an agreement (the “Refunding Escrow Agreement”) with the State Treasurer with respect to the Refunded Bonds. The Refunding Escrow Agreement will create an irrevocable fund (the “Refunding Escrow Fund”) to be held by the State Treasurer for the payment of the Refunded Bonds. The Refunding Escrow Fund need not be held as a trust fund and may be held by the State Treasurer as part of a commingled fund if accounted for separately. The State will deposit proceeds of the Series B Bonds and other available monies, if required, with the State Treasurer for deposit in the Refunding Escrow Fund in amounts that will be held as cash or used to acquire direct general obligations of the United States of America (the “Government Obligations”) maturing in amounts and bearing interest at rates sufficient without reinvestment, together with cash on deposit, to redeem the Refunded Bonds on their redemption date and at their redemption price and to pay all interest coming due on the Refunded Bonds on and prior to their redemption date. The Government Obligations will be purchased directly from the Treasury Department of the United States of America and/or in the open market through a competitive bidding process. For any Government Obligations purchased in the open market, such Government Obligations may be purchased from one or more of the initial purchasers of the Bonds or their affiliates. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, in the amounts needed to pay the redemption prices of and interest on the Refunded Bonds, will be pledged solely for the benefit of the holders of the Refunded Bonds. The State is required to deposit in the Refunding Escrow Fund any additional amounts that may be necessary for any reason to enable the State Treasurer, as the paying agent for the Refunded Bonds, to pay the redemption price of and interest on the Refunded Bonds.

The State will obtain verification sufficiency of the amounts and Government Obligations deposited in the Refunding Escrow Fund for the Refunded Bonds, and of certain yields, from Robert Thomas CPA, LLC. (See “VERIFICATION AGENT”).

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



## SOURCES AND USES OF FUNDS

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

<b>Sources of Funds:</b>	<u>Series A Bonds</u>	<u>Series B Bonds</u>	<u>Total</u>
Par Amount	\$ 154,355,000.00	\$ 35,415,000.00	\$ 189,770,000.00
Original Issue Premium	26,107,770.95	2,258,759.40	28,366,530.35
Total	<u>\$ 180,462,770.95</u>	<u>\$ 37,673,759.40</u>	<u>\$ 218,136,530.35</u>
<b>Uses of Funds:</b>			
Retirement of CP (approx.)	\$ 119,800,000.00		\$ 119,800,000.00
Capital Projects Fund (approx.)	60,200,000.00		60,200,000.00
Deposit to Refunding Trust Fund		\$ 37,586,117.00	37,586,117.00
Costs of Issuance	307,212.14	74,600.65	381,812.79
Underwriter's Discount	155,558.81	13,041.75	168,600.56
Total	<u>\$ 180,462,770.95</u>	<u>\$ 37,673,759.40</u>	<u>\$ 218,136,530.35</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, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Special Taxes	\$ 1,144,503,000	\$ 1,113,976,000	\$ 1,012,030,000	\$ 1,010,572,000

Source: TN Department of Revenue

The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of Special

Taxes will expire. The Bonds (as with all other State general obligation bonds issued after July 1, 2013, and notes) will not benefit from this specific pledge of Special Taxes.

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

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

All general obligation indebtedness of the State is secured on parity with all other general obligation indebtedness of the State, except that the Special Taxes secure only general obligation bonds outstanding on July 1, 2013. The State may issue, and currently is issuing as CP, general obligation bond anticipation notes, for the payment of which the full faith and credit of the State, but not Special Taxes, is pledged. See “STATE INDEBTEDNESS – Commercial Paper Program”. In addition, the State is authorized to issue general obligation tax revenue anticipation notes, for the payment of which the full faith and credit of the State, but not Special Taxes, is pledged; however, the State has not heretofore issued any such notes and has no current intent to do so. See “STATE INDEBTEDNESS – Tax Revenue Anticipation Notes”.

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

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

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

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

	<b>Total Sales and Use Tax Collections (Accrual Basis)</b>	<b>Allocation to Debt Service (Modified Accrual Basis)</b>
June 30, 2017	\$ 8,547,149,000	\$ 60,699,000
June 30, 2016	8,258,134,000	58,746,000
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

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	\$ 240,692,778 (1)
(b) State tax revenue allocated for FYE June 30, 2017 to:	
General Fund	\$ 11,771,970,000 * (1) (2)
Debt Service Fund	410,390,000 * (1) (2)
Highway Fund	<u>730,511,000</u> * (1) (2)
(c) Total of State tax revenue allocated for FYE June 30, 2017	\$ 12,912,871,000
(d) (a) divided by (c) expressed as a percentage (must be no greater than 10%)	1.86%

\* Source: Tennessee Department of Revenue and Tennessee Department of Finance and Administration

(1) Unaudited.

(2) Includes actual tax revenues collected on a cash basis for Fiscal Year 2017 (July 2016 - June 2017) net of amounts apportioned 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, 2024. The law also provides that if the General Assembly does not extend the termination date of an entity, the existence of the entity will continue for an additional year without any diminution, reduction or limitation of its powers. However, the State is required to preserve the rights of the holders of any outstanding indebtedness of the entity at the time of termination and the obligations and rights of such entity shall accrue to the State.

## **Bonds**

State law provides that the State may issue general obligation bonds for one or more purposes authorized by the General Assembly of the State. As of March 31, 2018 the State had \$1,778,290,000 (unaudited) of outstanding general obligation bonds, excluding the Bonds and including the Refunded 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. 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 March 31, 2018, \$265,176,000 (unaudited) principal amount of CP was outstanding under this program. The Series A Bonds are expected to retire approximately \$119,800,000 of CP.

## **Tax Revenue Anticipation Notes**

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

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**Outstanding General Obligation Bonded Indebtedness**

As of June 30, 2017, there were \$1,905,530,000 State general obligation bonds outstanding, excluding the Bonds and including the Refunded Bonds. The annual debt service requirements for the outstanding general obligation bonded indebtedness following the issuance of the Bonds and the refunding of the Refunded Bonds are as follows:

**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>		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018*	\$ 160,370,000	\$ 80,322,778	\$ 240,692,778				\$ 7,715,000	\$ 6,800,016	\$ 14,515,016	\$ 160,370,000	\$ 80,322,778	\$ 240,692,778
2019	151,465,000	73,341,165	224,806,165	7,645,000	1,108,225	8,753,225	14,920,000	8,604,600	23,524,600	159,180,000	78,918,281	238,098,281
2020	148,490,000	66,715,578	215,205,578	7,535,000	880,525	8,415,525	14,865,000	7,931,700	22,796,700	155,765,000	74,211,953	229,976,953
2021	141,670,000	60,145,698	201,815,698	7,415,000	656,275	8,071,275	14,810,000	7,261,000	22,071,000	149,000,000	67,196,873	216,196,873
2022	141,910,000	53,655,805	195,565,805	7,310,000	417,125	7,727,125	14,745,000	6,592,700	21,337,700	149,305,000	60,260,530	209,565,530
2023	133,910,000	47,317,568	181,227,568	7,230,000	144,600	7,374,600	14,675,000	5,927,100	20,602,100	141,345,000	53,493,143	194,838,143
2024	131,245,000	41,762,635	173,007,635				7,720,000	5,402,000	13,122,000	138,690,000	47,545,135	186,235,135
2025	123,815,000	36,670,058	160,485,058				7,720,000	5,016,000	12,736,000	131,535,000	42,072,058	173,607,058
2026	121,605,000	31,526,110	153,131,110				7,720,000	4,630,000	12,350,000	129,325,000	36,542,110	165,867,110
2027	114,550,000	26,624,688	141,174,688				7,720,000	4,244,000	11,964,000	122,270,000	31,254,688	153,524,688
2028	109,760,000	22,017,709	131,777,709				7,720,000	3,858,000	11,578,000	117,480,000	26,261,709	143,741,709
2029	101,275,000	17,494,030	118,769,030				7,720,000	3,472,000	11,192,000	108,995,000	21,352,030	130,347,030
2030	76,925,000	13,493,337	90,418,337				7,720,000	3,086,000	10,801,000	84,645,000	16,965,337	101,610,337
2031	65,785,000	10,215,920	76,000,920				7,715,000	2,700,250	10,415,250	73,500,000	13,301,920	86,801,920
2032	57,910,000	7,408,688	65,318,688				7,715,000	2,314,500	10,029,500	65,625,000	10,108,938	75,733,938
2033	35,655,000	5,280,875	40,935,875				7,715,000	1,928,750	9,643,750	43,370,000	7,593,375	50,963,375
2034	28,650,000	3,743,250	32,393,250				7,715,000	1,543,000	9,258,000	36,365,000	5,672,000	42,037,000
2035	28,650,000	2,310,750	30,960,750				7,715,000	1,157,250	8,872,250	36,365,000	3,853,750	40,218,750
2036	23,100,000	1,017,000	24,117,000				7,715,000	771,500	8,486,500	30,815,000	2,174,250	32,989,250
2037	8,790,000	219,750	9,009,750				7,715,000	385,750	8,100,750	16,505,000	991,250	17,496,250
2038							7,715,000			7,715,000		7,715,000
	<b>\$ 1,905,530,000</b>	<b>\$ 601,283,390</b>	<b>\$ 2,506,813,390</b>	<b>\$ 37,135,000</b>	<b>\$ 4,429,650</b>	<b>\$ 41,564,650</b>	<b>\$ 189,770,000</b>	<b>\$ 83,626,116</b>	<b>\$ 273,396,116</b>	<b>\$ 2,058,165,000</b>	<b>\$ 680,479,857</b>	<b>\$ 2,738,644,857</b>

\* Amounts for the entire Fiscal Year 2018

**Authorized and Unissued Bonds**

The State had authorized as of March 31, 2018, \$1,318,856,040 of general obligation bonds that have not been issued, including the Series A 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, \$639,000,000 is for highway improvements. In addition, \$87,900,000 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, 2017, excluding the Bonds and including the Refunded Bonds.

<u>Principal Amount Due Within</u>	<u>Principal Amount</u>	<u>% of Total</u>
5 Years	\$ 743,905,000	39.04%
10 Years	1,369,030,000	71.85%
15 Years	1,780,685,000	93.45%
20 Years	1,905,530,000	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's Boyd Center for Business and Economic Research (the "Boyd Center" formerly known as "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. The Boyd Center 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 the Boyd Center 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 the Boyd Center, 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. In November of each year 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 2013 through 2017, the estimated balance for fiscal year 2018 and the budgeted balance at the end of the 2019 fiscal year, respectively, are as follows:

<b>Fiscal Year Ended</b>	<b>Balance</b>
June 30, 2013	\$ 356,000,000
June 30, 2014	456,000,000
June 30, 2015	491,500,000
June 30, 2016	568,000,000
June 30, 2017	668,000,000
June 30, 2018	800,000,000 *
June 30, 2019	850,000,000 **

\* Estimated and unaudited

\*\* Budgeted

The Reserve is estimated to have increased by \$132.0 million for the fiscal year ending June 30, 2018 and budgeted to increase by an additional \$50.0 million for the fiscal year ending June 30, 2019. The statutory goal is for the Reserve to be eight percent 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 the fiscal year ending June 30, 2019 will be achieved. See “STATE FINANCES - Financial Information and Budget Summary for Fiscal Years 2017-2018 and 2018-2019”.

## **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 currently 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 2017-2018 and 2018-2019**

### *Financial Information*

The fiscal year 2018-2019 Recommended Budget, as presented by the Governor to the General Assembly on January 29, 2018, projected recurring growth in total taxes of \$453.2 million, or 3.20%, and recurring growth in the general fund of \$375.6 million, or 3.20%, above fiscal year 2017-2018 estimates.

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 November 20, 2017, to hear and discuss updates on economic and revenue projections for the remainder of fiscal year 2017-2018 and to project revenue estimates for fiscal year 2018-2019. The State Funding Board reconvened on November 27, 2017, and adopted the following revised consensus tax revenue recurring growth projections for the 2017-2018 fiscal year (growth measured against actual results for the 2016-2017 fiscal year, as set forth in the following table)

and for the 2018-2019 fiscal year (recurring growth measured against the potential range of results for the 2017-2018 fiscal year, as set forth in the following table):

	<b>Fiscal Year 2016-2017 Results</b>	<b>Fiscal Year 2017-2018</b>		<b>Fiscal Year 2018-2019</b>	
		<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
<b>Total State Taxes</b>	\$ 13,795,445,400	2.43%	2.67%	2.70%	3.20%
<b>General Fund Only</b>	\$ 11,576,708,900	1.16%	1.40%	2.70%	3.20%

The fiscal year 2018-2019 Recommended Budget was based on these consensus revenue estimates.

The State Funding Board is scheduled to convene in November 2018 to hear and discuss updates on economic and revenue projections for the remainder of fiscal year 2018-2019 and to project revenue estimates for fiscal year 2019-2020. The Board may schedule additional meetings at its discretion.

On an accrual basis, January is the sixth month of fiscal year 2017-2018. Total state tax collections for the six months (August through January) were \$185.1 million above the July 1, 2017 budgeted estimate, and collections for the general fund were \$136.1 million above the budgeted estimates. Collections for the four other funds that share tax revenue proceeds were \$49.0 million more than the July 1, 2017 budgeted estimates. Collections are unaudited and subject to final accrual adjustments. The Rainy Day Fund balance is estimated to be \$800.0 million at June 30, 2018 and projected to be \$850.0 million at June 30, 2019. See “STATE FINANCES – Reserve for Revenue Fluctuations”.

*Fiscal Year 2018-2019 Budget Summary*

As shown in the Recommended Budget, the fiscal year 2018-2019 budget is based on a recurring growth rate in total taxes of 3.20%. General Fund recurring cost increases total \$1,014.0 million, much of which is used to fund salary and benefits, program and inflationary growth in TennCare, the Basic Education Program, Higher Education, capital improvements, and capital maintenance. For the 2018-2019 Recommended Budget to remain balanced, State programs are reduced by an average of 2.0% for a total of \$118.6 million. Recurring appropriations are funded by recurring revenues. The Rainy Day Fund balance is budgeted to increase to \$850 million after an additional deposit of \$50 million. For a further description of the 2018-2019 Recommended Budget, see “Budgetary Sources and Uses” section below.

The capital budgets as amended and approved by the General Assembly for fiscal year 2017-2018 and the Recommended Budget for fiscal year 2018-2019 are as follows:

	<b>Fiscal Year</b>	
	<b>2017-18</b>	<b>2018-19</b>
State Current Funds	\$ 574,367,000	\$ 181,338,000
Federal Funds	7,370,000	3,405,000
General Obligation Bonds (excl. Hwy. Imp.)	0	118,435,000
Highway Improvement Bonds	80,000,000	77,000,000
Other Miscellaneous Funds	164,545,500	115,369,000
Facilities Revolving Fund	148,370,000	28,090,000
<b>Total</b>	<b>\$ 974,652,500</b>	<b>\$ 523,637,000</b>

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, 2021.

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 and some persons over 21 that have an intellectual or developmental disability (beginning July 1, 2016). 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. In 2016, a waiver amendment was approved to create the Employment and Community First CHOICES program which brought into managed care new enrollees with a need for home and community based services for individuals with intellectual or developmental disabilities.

The Division 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 850,000 children and approximately 550,000 adults. The 2017-2018 TennCare budget is \$11.66 billion, including federal funds, and is 31.4% of the total 2017-2018 Recommended Budget. Excluding federal funds, the cost of the TennCare program is budgeted to be 20.5% of the total State tax collections.

In fiscal year 2016-2017, the TennCare Reserve was \$242.5 million and is equal to 6.8% of the State funds contributed to the TennCare program. Historically, the TennCare Unobligated Reserve was \$226.2 million in fiscal year 2015-2016; \$267.7 million in fiscal year 2014-2015; \$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.

**Budgetary Sources and Uses of Funds**

The following tables compare budgetary sources and uses of funds for fiscal years 2017-2018 and 2018-2019:

**2018-2019 Budget Document  
2017-2018 Estimated Budget Compared to  
2018-2019 Recommended Budget  
Sources of Funds**

	<b>Estimated Budget FY 2017-2018</b>	<b>Recommended Budget FY 2018-2019</b>	<b>Difference</b>
Tax Revenue - Revised Estimate			
Sales and Use Taxes	\$ 8,714,200,000	\$ 9,023,800,000	\$ 309,600,000
Other Taxes - Department of Revenue	5,445,400,000	5,589,800,000	144,400,000
2018 Department of Revenue - PC 490 PC Adjustment	(2,147,100)	-	2,147,100
Other Miscellaneous Revenues	2,070,735,000	2,126,267,000	55,532,000
Tobacco Funds	167,300,000	160,600,000	(6,700,000)
Lottery for Education Funds	345,900,000	359,300,000	13,400,000
Debt Service Fund Transfer	55,500,000 *	-	(55,500,000)
Reserve Transfers and Adjustments	1,155,853,400 *	441,823,200 *	(714,030,200)
Reversion - Overappropriation	124,217,700 *	76,808,500 *	(47,409,200)
Rainy Day Fund Transfer	(132,000,000) *	(50,000,000) *	82,000,000
<b>Sub-Total</b>	<b>\$ 17,944,959,000</b>	<b>\$ 17,728,398,700</b>	<b>\$ (216,560,300)</b>
Federal Funds	\$ 13,626,911,000	\$ 13,896,705,800	\$ 269,794,800
Current Services and Other Revenues	3,834,980,600	3,787,234,200	(47,746,400)
Tuition and Student Fees	1,858,619,000	1,858,619,000	-
Bonds	80,000,000	245,435,000	165,435,000
<b>Total</b>	<b>\$ 37,345,469,600</b>	<b>\$ 37,516,392,700</b>	<b>\$ 170,923,100</b>

* Reserves, Transfers and Reversion <sup>1</sup>	\$ 1,203,571,100	\$ 468,631,700	\$ (734,939,400)
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<sup>1</sup> 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.

**2018-2019 Budget Document**  
**2017-2018 Estimated Budget Compared to**  
**2018-2019 Recommended Budget**  
**Uses of Funds**

	<u>Estimated Budget FY 2017-2018</u>	<u>Estimated Budget FY 2018-2019</u>	<u>Difference</u>
General Government	\$ 1,480,532,000	\$ 1,512,799,600	\$ 32,267,600
Education	10,777,337,700	11,000,457,500	223,119,800
Health and Social Services	16,806,637,200	17,143,406,800	336,769,600
Law, Safety, and Correction	1,894,124,500	1,903,209,900	9,085,400
Resources and Regulation	1,008,142,700	973,900,800	(34,241,900)
Business and Economic Development	<u>738,839,200</u>	<u>670,145,000</u>	<u>(68,694,200)</u>
<b>Total General Fund</b>	<b><u>\$ 32,705,613,300</u></b>	<b><u>\$ 33,203,919,600</u></b>	<b><u>\$ 498,306,300</u></b>
Transportation	\$ 2,075,941,900	\$ 2,150,693,700	\$ 74,751,800
Debt Service Requirements	369,219,000	367,147,000	(2,072,000)
Capital Outlay Program	746,282,500	330,820,000	(415,462,500)
Facilities Revolving Fund	280,812,900	261,112,400	(19,700,500)
Cities and Counties - State Shared Taxes	<u>1,167,600,000</u>	<u>1,202,700,000</u>	<u>35,100,000</u>
<b>Total State Budget All Programs</b>	<b><u>\$ 37,345,469,600</u></b>	<b><u>\$ 37,516,392,700</u></b>	<b><u>\$ 170,923,100</u></b>

## **Investment Policy**

The State Funding Board is charged with the establishment of policy guidelines for the investment of State funds. The State Treasurer is responsible for the management of the State Pooled Investment Fund (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, the weighted average maturity cannot exceed 60 days, and the weighted average life 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 securities purchased 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, certain terms and conditions must be met. All securities purchased are held by a custodian pursuant to a custodian agreement.

In addition to the funds in the SPIF and the ITIF, TCRS (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, GASB issued 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”). In 2015, GASB issued Statements Nos. 74 and 75 which replaced Statements Nos. 43 and 45, respectively. Statement No. 74 was effective for FYE June 30, 2017 while Statement No. 75 is effective for FYE June 30, 2018.

State employees and teachers who meet specified criteria receive pension benefits provided to retirees through a defined benefit plan administered by TCRS. In addition to retirement benefits, certain qualified retirees may continue participation in OPEB plans 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. 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. Employees hired on or after July 1, 2015 are not eligible to participate in State administered OPEB plans.

The most recent actuarial valuation of post-employment medical benefits, as of July 1, 2015, was completed during fiscal year 2016. 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, 2015 study are summarized below. The annual required contribution (“ARC”) consists of the normal cost (the portion of the actuarial present value for OPEB benefits which is allocated to a valuation year by the actual cost method) and an amortization of the unfunded actuarial liability.

	<b>As of June 30, 2017 (unaudited)</b>	
	(expressed in thousands)	
	<b>Unfunded Actuarial Liability</b>	<b>ARC</b>
<b>State Employee Group Plan</b>		
State obligation for employees (including Component Units)	\$ 1,167,410	\$ 126,235
<b>Local Education Employee Group Plan</b>		
State obligation on behalf of teachers	274,798	29,680
<b>Tennessee Plan (Medicare Supplement)</b>		
State obligation for employees (including Component Units)	163,699	12,687
State obligation on behalf of teachers	145,417	10,260
<b>Total State Obligation</b>	<b>\$ 1,751,324</b>	<b>\$ 178,862</b>

The actuary reports may be reviewed at: <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State has contracted with Gabriel Roeder Smith and Company to provide GASB required valuations for the State Employee Group, Teacher Group, Local Government Group and Tennessee (Medicare Supplement) OPEB plans for fiscal years ended June 30, 2014 through June 30, 2019. The next valuation, as of July 1, 2017, will be used to implement GASB 75 and will cover the measurement period of July 1, 2016-July 1,



2017. These results are expected to be received in late spring of 2018, and will be reported in the FYE June 30, 2018 financial statements.

The OPEB information above was reported in the State's Comprehensive Annual Financial Report ("CAFR") for fiscal year 2016-2017. Historically, the State has not pre-funded any actuarially determined OPEB liability and instead used a pay-as-you-go funding arrangement for actual costs of OPEB liabilities incurred. This funding arrangement is expected to remain in place for the current fiscal year. However, it is anticipated that the State will transition to a pre-funding arrangement during fiscal year 2019. The State has the flexibility to adjust the benefits and premium sharing provisions provided by insurance plans and to adjust the various OPEB plan options and operations on an annual basis. It will continue to analyze the cost of the choices available to 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 General Assembly appropriated \$153,200,000 for fiscal year 2017-2018 for initial funding of the Trust. It is anticipated that the Trust will become effective January 1, 2019.

### **Financial Reporting 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 CAFR 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, 2016. TCRS was also awarded a Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ended June 30, 2016. This was the twenty-ninth 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 GAAP and applicable legal requirements.

## **THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

### **Introduction**

TCRS was established in 1972 as a trust to provide a defined benefit pension plan that covers three large groups of public employees - State employees (including higher education employees), public school teachers of grades K-12 (including teachers employed by public charter schools) ("Teachers"), and employees of participating local governments.

State and higher education employees (with limited exceptions described in the section "General Information") hired on or before June 30, 2014 are members of a legacy closed defined benefit plan (the "Closed Plan") and do not make contributions to the Closed Plan. Since July 1, 1981, all contributions made on behalf of members of the Closed Plan have been made by members' employers in amounts determined by actuarial valuations.

State and higher education employees (with limited exceptions described in the section "General Information") hired on or after July 1, 2014 are members of a hybrid retirement plan that provides both a defined benefit plan and a defined contribution plan (the "Hybrid Plan").

The State is ultimately responsible for the financial obligation of the benefits provided by TCRS to State and higher education employee members of the Closed Plan to the extent such obligation is not covered by employer contributions and investment earnings. Although the State's liability for its financial obligations under the Closed Plan is uncapped, the Hybrid Plan was designed so that the State's liability is limited to a total maximum annual employer cost of nine percent (9%) of an employee's salary. The plan provisions of the Closed Plan and the Hybrid Plan are described in "General Plan Provisions."

The State is not directly responsible for the pension benefits provided to Teachers or local government employees. However, the State does provide funding to the local school systems, which are referred to as 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.

TCRS is governed by a Board of Trustees (the "Board") 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 who 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 County Officials Association of Tennessee for two-year terms), a retired Teacher (appointed by the Speaker of 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. However, pursuant to the funding policy adopted by the Board on September 26, 2014, an actuarial valuation is conducted annually as of each June 30th for both accounting purposes and funding purposes. The latest actuarial valuation was performed as of June 30, 2016, and an actuarial valuation as of June 30, 2017 is underway. The Board 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 ARC; however, ADC is essentially the same as the ARC.

The total pension liability of the Closed Plan in excess of its fiduciary net position (net assets), or net pension liability, at June 30, 2016 measurement date, was \$1,824,565,232. The Closed Plan fiduciary net position as a percentage of the total pension liability, or funded ratio, was 87.96% at June 30, 2016, calculated in accordance with GASB Statement No. 68 ("GASB 68"). The funded ratio was 91.26% at June 30, 2015. Before 2014, the funded ratio was calculated using the actuarial value of assets as determined in an actuarial valuation with such amount then divided by actuarial accrued liability. Historical funded ratios were 89.4% for 2013, 88.30% for 2011, 86.32% for 2009, 90.93% for 2007, and exceeded 99% for the years 2005, 2003 and 2001. In most years before 2014, the funded ratio would have been lower if based on market value of assets.

The Hybrid Plan is a legally separate agent plan pursuant to State statute and a separate set of accounting and actuarial records is maintained for this plan. At June 30, 2016 measurement date, the funded ratio of the Hybrid Plan was 130.56% with fiduciary net position exceeding total pension liability by \$8,424,477.

The amounts and percentages set forth in this section relating to TCRS are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates,

cost of living adjustments, post-employment 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 in this section. In addition, prospective purchasers of the Bonds are cautioned that such sources and the underlying assumptions are provided 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 in this section 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. Tennessee Code Annotated Section 8-34-202 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 the Board. 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 both the Closed Plan and the Hybrid Plan, in accordance with State statute and in accordance with the policies, rules, and regulations established by the Board.

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, a defined contribution plan described in the section “Other Retirement Programs.”

Teachers are members of TCRS. The more than 142 LEAs are responsible on a cost sharing basis for the financial obligation of the benefits provided by TCRS to Teachers to the extent such obligations are not covered by their 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 an 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 an 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. As of June 30, 2017 there were 525 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.

State employees and higher education employees are combined for actuarial and financial obligation purposes, and the State is considered an agent employer group pursuant to GASB. Since the State is financially responsible for State and higher education employees in the Hybrid Plan, up to the point where cost controls occur, as described in the section “Cost Controls and Unfunded Liability Controls of the Hybrid Plan”, separate accounting and actuarial records are maintained for this group. LEAs are combined into a teacher cost-sharing group for actuarial and financial obligation purposes. Since LEAs are financially responsible for Teachers in the Hybrid Plan up to the point where cost controls occur, as described in the section “Cost Controls and Unfunded Liability Controls of the Hybrid Plan”, separate accounting and actuarial records are maintained for this Teacher group. Each participating local government in TCRS is maintained separately for actuarial and financial obligation purposes and is considered an agent employer for financial purposes. However, the assets of all public employee groups participating in TCRS are commingled for investment purposes with each group receiving its pro rata share of investment gains and losses.

It has been TCRS’ practice to conduct an actuarial audit every ten years, the last audit being completed effective with the 2009 valuation. The current 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 Board, an actuarial experience study is conducted every four years. The most recent experience study was conducted in 2016. As mentioned above, actuarial valuations are required every two years but by policy are conducted annually.

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 GAAP in the United States of America.

The Comptroller of the Treasury performed the audit of the most recent financial statements of TCRS as of June 30, 2017. The latest actuarial valuations for funding and accounting purposes (as of June 30, 2016), and actuarial experience study (also as of June 30, 2016) were performed by the actuarial and consulting firm of Bryan, Pendleton, Swats, & McAllister, LLC. The latest actuarial audit (as of July 1, 2009) was performed by the actuarial and consulting firm of Gabriel, Roeder, Smith, & Company. Such reports are available on the Tennessee Treasury website at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

As of June 30, 2016 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 & Higher Education				
Employees				
Closed Plan	47,648	54,773	39,662	142,083
Hybrid Plan	<u>10,862</u>	<u>2</u>	<u>3,619</u>	<u>14,483</u>
Total	58,510	54,775	43,281	156,566
Teachers				
Closed Plan	65,458	49,336	30,630	145,424
Hybrid Plan	<u>11,079</u>	<u>1</u>	<u>1,690</u>	<u>12,770</u>
Total	76,537	49,337	32,320	158,194

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

## General Plan Provisions

### *Closed Plan*

The description under this section applies to employees hired on or before June 30, 2014; the Closed 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 sixty (60) and vested or at any age after thirty (30) years of service credit. A reduced benefit is available at age fifty-five (55). Disability benefits are available after five (5) 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 ("five (5) year 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 between one and five-tenths percent (1.5%) and one and sixth-tenths percent (1.6%) of the member's five (5) year salary multiplied by years of service. For example, a thirty (30) year employee will receive approximately forty-eight percent (48%) of his or her five (5) year salary.

Retirees are entitled to Cost of Living Adjustments ("COLA") after retirement. As required by Tennessee Code Annotated Section 8-36-701, cost of living adjustments are made every July 1 for retirees who have been retired at least twelve (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 five-tenths of one percent (0.5%). If the consumer price index increases between five-tenths of one percent (0.5%) and one percent (1.0%), the increase granted is one percent (1.0%). Otherwise, the adjustment is the actual increase in the consumer price index except that the COLA is capped at a maximum of three percent (3.0%).

State employees and higher education employees hired on or before June 30, 2014, are non-contributory, i.e., they do not contribute a portion of their salary. The five percent (5.0%) employee contribution is made on their behalf by their employers. Teachers contribute five percent (5.0%) of salary. Separate accounting and actuarial records are maintained for each group.

There are no cost controls or unfunded liability controls for the Closed Plan.

### *Defined benefit pension plan for employees hired on or after July 1, 2014 as a component of the Hybrid Plan*

Employees hired on or after July 1, 2014 are members of the Hybrid Plan which 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 (5) years of employment. Eligibility for a retirement benefit is either age sixty-five (65) and vested or under the rule of ninety (90) where a combination of age and service credit totals ninety (90). An actuarially reduced benefit is available at age sixty (60) or the rule of eighty (80). Disability benefits are available after five (5) 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 (5) year salary and a member's years of creditable service. The formula provides a benefit equal to one percent (1.0%) of the member's five (5) year salary multiplied by the member's years of creditable service.

Retirees are entitled to COLA after retirement. As required by Tennessee Code Annotated, Section 8-36-701, COLAs are made every July 1 for retirees who have been retired at least twelve (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 five-tenths of one percent (0.5%). If the consumer price index increases between five-tenths of one percent (0.5%) and one percent (1.0%), the increase granted is one percent (1.0%). Otherwise, the adjustment is the actual increase in the consumer price index except that the COLA is capped at a maximum of three percent (3.0%).

State and higher education employees hired on or after July 1, 2014, contribute five percent (5.0%) of salary. Teachers also contribute five percent (5.0%) of salary.

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

The Hybrid Plan was designed so that the maximum employer pension cost is limited to a total of nine percent (9.0%) of salary combined for the defined benefit plan and the defined contribution plan. Employer contributions are targeted at four percent (4.0%) of salary to the defined benefit plan and at five percent (5.0%) of salary to the defined contribution plan. Should the actuarially determined employer contribution for the defined benefit plan be less than four percent (4.0%), the excess will be held by TCRS in a stabilization reserve trust (“SRT”). When an actuarial valuation is performed and the actuarial rate for the defined benefit plan exceeds four percent (4.0%), 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 one percent (1.0%) of salary; (5) reduce the benefit accrual factor below one percent (1.0%) 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 separately to the Teacher group in the Hybrid Plan

The Hybrid Plan also was designed to control the actuarial unfunded liability. If an actuarial valuation determines that the unfunded liability of the Hybrid Plan for State and higher education employees exceeds twelve and five-tenths percent (12.5%) of the five year average of the State’s bond indebtedness, then the same controls set out in the preceding paragraph will automatically occur. These provisions also apply separately to the Teacher group in the Hybrid Plan.

**Investments and Investment Policy**

Tennessee Code Annotated Section 8-37-104 establishes the types of investments that are permitted. An investment policy is adopted by the Board related to the authorized investment types and portfolio structure. The statute also provides for an Investment Advisory Council 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 is available on the Tennessee Treasury website at [www.treasury.tn.gov/ters](http://www.treasury.tn.gov/ters).

The actual allocation of assets and the policy target range at June 30, 2017 are:

<u>Asset Class</u>	<u>Policy Range</u>	<u>Actual Allocation</u>
North American Stock	25-50%	35.1%
Domestic Bonds	20-60%	25.5%
Inflation Indexed Bonds	0-15%	3.2%
Short-term Securities	0-10%	0.9%
International Bonds	0-10%	0.0%
International Stocks	5-25%	19.3%
Private Equity & Strategic Lending	0-20%	8.2%
Real Estate	0-20%	7.7%
		100.0%

The historical annualized rates of return (net of fees) on TCRS investments as of June 30, 2017 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>
11.42%	5.77%	8.70%	5.87%	6.67%	6.40%	7.35%

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>
2017	11.4%
2016	2.8%
2015	3.3%
2014	16.7%
2013	9.9%
2012	5.6%
2011	19.6%
2010	10.2%
2009	(15.3)%
2008	(1.2)%

### **Actuarial Methodology for Funding Purposes**

The funding policy adopted by the Board provides that the 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, 2016, under the 10-year smoothing of assets methodology net investment losses of approximately \$945 million are being deferred in the Closed plan and \$2.5 million in the Hybrid plan. The June 30, 2016 actuarial valuation established the employer contribution rate for the period July 1, 2017 through June 30, 2018.

### **Economic and Demographic Assumptions**

The latest actuarial experience study was conducted in 2016 and determined the economic and demographic assumptions to be utilized in the 2017, 2018, 2019, and 2020 actuarial valuations.

The long term investment earnings assumption of 7.25% 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 8.72% at age 20 while the upper portion of the range at age 70 is 3.44%. The approximate average salary assumption increase is 4.00%. The social security wage base is assumed to increase 3.0%. The cost of living adjustment for retirees is assumed to increase 2.25% annually. A rate of inflation of 2.5% is assumed in establishing the economic assumptions. All of the economic assumptions noted above reflect lower values from the 2016 experience study.

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 and most current Society of Actuaries mortality tables. Additionally, the mortality assumptions reflect improvements and projections of further improvements in life expectancy.

**Summary of Fiscal Health of TCRS**

**Funded Status Based on GASB Pension Standards  
At June 30, 2016\*  
(dollars expressed in thousands)**

<u>Group</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>
<b>State &amp; Higher Education Employees</b>						
Closed Plan	\$13,334,528	\$15,159,093	\$1,824,565	87.96%	\$2,376,794	76.77%
Hybrid Plan	35,994	27,569	(8,424)	130.56%	305,786	(2.76%)
<b>Teachers</b>						
Closed Plan	21,191,573	21,816,518	624,945	97.14%	3,609,801	17.31%
Hybrid Plan	57,990	47,579	(10,411)	121.88%	440,004	(2.37%)

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

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### Historical Fiduciary Net Position

The available historical plan 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 Plan Fiduciary Net Position (dollars expressed in thousands)

Year ended June 30	State & Higher Education Employees Closed Plan	State & Higher Education Employees Hybrid Plan **	Teachers Closed Plan	Teachers Hybrid Plan **
2016*	\$13,334,528	\$35,994	\$21,191,573	\$57,990
2015	13,457,746	9,317	21,268,085	18,676
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	

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

\*\* Plan began July 1, 2014.

#### Historical Funding Progress Based on Plan Fiduciary Net Position State and Higher Education Employees Closed Plan 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
2016*	\$13,334,528	\$15,159,093	\$1,824,565	87.96%	\$2,376,794	76.77%
2015	13,457,747	14,747,029	1,289,282	91.26%	2,540,327	50.75%
2014	13,430,683	14,120,632	689,949	95.11%	2,658,354	25.95%
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%

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

**Historical Funding Progress Based on Plan Fiduciary Net Position  
State and Higher Education Employees Hybrid Plan  
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>
2016*	\$35,994	\$27,569	(\$8,424)	130.56%	\$305,786	(2.76%)
2015	9,317	6,536	(2,781)	142.55%	107,086	(2.60%)

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

**Historical Funding Progress Based on Plan Fiduciary Net Position  
Teachers Closed Plan  
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>
2016*	\$21,191,573	\$21,816,518	\$624,945	97.14%	\$3,609,801	17.31%
2015	21,268,085	21,309,048	40,963	99.81%	3,743,503	1.09%
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%

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

**Historical Funding Progress Based on Plan Fiduciary Net Position  
Teachers Hybrid Plan  
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
2016*	\$57,990	\$47,579	(\$10,411)	121.88%	\$440,004	(2.37%)
2015	18,676	14,653	(4,023)	127.46%	207,773	(1.94%)

\* Information from most recent actuarial valuation (measurement period of 7/1/2015-6/30/2016).

**Cash Flows**

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

Fiscal Year	Cash Inflows		Cash Out Flows		Net Cash Flows
	Contributions	Interest and Dividends *	Benefits and Refunds	Administrative Cost	
2017	\$ 965,890	\$ 3,865,904	\$ 2,049,988	\$ 11,802	\$ 2,770,004
2016	944,260	916,301	1,978,488	13,469	(131,396)
2015	948,804	1,056,413	1,885,341	10,345	109,531
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

\* Interest and Dividends includes interest, dividends and all gains and losses, whether realized or unrealized.

## 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 and has not been updated since that time. 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 2014 totaled \$2,060,890,000, for FY 2015 totaled \$2,195,814,000, and for FY 2016 totaled \$2,312,706,000.

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

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

**Actuarially Determined Contributions**

**Actuarially Determined Contributions (previously called Annual Required Contributions) and Percentage Contributed (dollars expressed in thousands)**

Year Ended June 30	State & Higher Education Employees Closed Plan		State & Higher Education Employees Hybrid Plan	
	Employer Contribution	Employer Contribution as a Percentage of ADC	Employer Contribution	Employer Contribution as a Percentage of ADC
2017	\$360,434	100%	\$20,339	326%
2016	366,114	100%	12,016	186%
2015	392,467	100%	4,214	185%
2014	410,608	100%		
2013	391,352	100%		
2012	382,888	100%		
2011	383,365	100%		
2010	341,585	100%		
2009	350,770	100%		
2008	374,530	100%		

**Actuarially Determined Contributions (previously called Annual Required Contributions)  
and Percentage Contributed  
(dollars expressed in thousands)**

Year Ended June 30	Teachers Closed Plan		Teachers Hybrid Plan	
	Employer Contribution	Employer Contribution as a Percentage of ADC	Employer Contribution	Employer Contribution as a Percentage of ADC
2017	\$319,576	100%	\$26,262	257%
2016	327,522	100%	17,539	159%
2015	338,413	100%	8,311	162%
2014	348,539	100%		
2013	344,534	100%		
2012	343,594	100%		
2011	339,833	100%		
2010	236,545	100%		
2009	233,215	100%		
2008	218,882	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 \$380,773,000 for the fiscal year ended June 30, 2017 as shown on the schedule above.

**Employer Contributions**

The 2016 actuarial valuation established the employer contribution rates for the Closed Plan for the fiscal year ending June 30, 2018, to be eighteen and eighty-seven one-hundredths percent (18.87%) of salary for general State employees and higher education employees, twenty-two and forty-five one-hundredths percent (22.45%) of salary for public safety employees and twenty-three and thirty-three one-hundredths percent (23.33%) for State judges. The combined aggregate rate for such period will be nineteen percent (19.00%) of salary. LEAs will make employer contributions at the rate of nine and eight one-hundredths percent (9.08%) of salary for Teachers in the Closed Plan during the fiscal year ending June 30, 2018.

The 2016 actuarial valuation determined the ADC rates for the Hybrid Plan for the fiscal year ending June 30, 2018. The statutorily established four percent (4.0%) employer contribution rate will consist of an ADC of one and twenty-nine one-hundredths percent (1.29%) of salary and a contribution of two and seventy-one one-hundredths percent (2.71%) to the SRT for general State employees and higher education employees, an ADC of two and fourteen one-hundredths percent (2.14%) of salary and a contribution of one and eighty-six one-hundredths percent (1.86%) to the SRT for public safety employees and an ADC of six and seventy-seven one-hundredths percent (6.77%) of salary for State Judges. The combined aggregate rate will be four percent (4.00%) of salary. LEAs will make an ADC of one and sixty-three one-hundredths percent (1.63%) of salary and a contribution of two and thirty-seven one-hundredths percent (2.37%) to the SRT for Teachers in the Hybrid Plan during the fiscal year ending June 30, 2018. Additionally, as part of the Hybrid Plan, employers make contributions equal to 5% of salary to the defined contribution plan as described below.

**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 (“ORP Employees”) and elect to participate in the Optional Retirement Program (“ORP”), a defined contribution plan. ORP Employees hired prior to July 1, 2014 do not contribute to the ORP.

By statute, employer contributions for ORP Employees hired on or before June 30, 2014 are made at the rate of ten percent (10.0%) of salary up to the social security wage base and eleven percent (11.0%) of salary above the wage base. ORP Employees hired on or after July 1, 2014 contribute five percent (5.0%) of salary to the ORP. By statute, employer contributions for such employees are made at the rate of nine percent (9.0%) of salary.

ORP Employees are immediately vested in employer and employee contributions and make their own determinations as to how such contributions are invested. Currently, there are a variety of investment products for ORP Employees to choose from among three different vendors. There were approximately 12,500 ORP Employees at June 30, 2017. Employer contributions from the State and higher education institutions totaled \$80.5 million for the Closed Plan and \$16.0 million for the Hybrid Plan during the fiscal year ended June 30, 2017.

*Defined Contribution Plan for State Employees and Higher Education Employees hired on or after July 1, 2014 as a component of the Hybrid Plan*

One component of the Hybrid Plan is a defined contribution plan for State employees and higher education employees hired on or after July 1, 2014. By statute, employer contributions are made at the rate of five percent (5.0%) of salary. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls previously described for the defined benefit plan component. Upon employment, employees are automatically enrolled to contribute two percent (2.0%) 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 Teachers hired on or after July 1, 2014 as a component of Hybrid Plan*

One component of the Hybrid Plan is a defined contribution plan for Teachers hired on or after July 1, 2014. By statute, employer contributions are made by the LEAs at the rate of five percent (5.0%) of salary. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls previously described for the defined benefit plan component. Upon employment, Teachers are automatically enrolled to contribute two percent (2.0%) of salary to the defined contribution plan, but Teachers may elect to increase or decrease their employee contributions at any time.

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

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

The deferred compensation program is a voluntary defined contribution plan to provide State employees and higher education employees with the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans - a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to 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, 2017, 64,817 State and higher education employees actively participated in the 401(k) plan on a voluntary basis or as part of the Hybrid Plan with an additional 4,591 employees participating in the 457 plan. Employer contributions to the 401(k) for the Hybrid Plan totaled \$25.7 million and \$30.8 million for the employer match on voluntary contributions. Additionally, 22,340 Teachers actively participated on a voluntary basis or as part of the Hybrid Plan. LEA employer contributions to the 401(k) for the Hybrid Plan totaled \$32 million.

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

**Other Employer Contributions for State and Higher Education Employees  
Participating in the ORP or 401(k)**

Year Ended 30-Jun	ORP Employer Contributions	DC Employer Contributions	Total Non-TCRS Employer Contributions
2017	\$ 96,501,258	\$ 56,492,141	\$ 152,993,399
2016	94,115,457	44,260,831	138,376,288
2015	94,003,305	34,046,882	128,050,187

\*\*\* DC ER contributions include Hybrid contributions and \$50 employer match

**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 March 31, 2018, TLDA had \$2,465,000 (unaudited) of bonds outstanding for these Programs.



### **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 March 31, 2018, the Authority had outstanding \$1,591,590,000 (unaudited) aggregate principal amount of higher educational facility bonds, \$82,829,168 (unaudited) of higher educational facility revolving credit facility, and \$32,590,000 (unaudited) aggregate principal amount of QZAB bonds. As of March 31, 2018, 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 \$176,141,792 (unaudited) was the book value of assets on deposit as of March 31, 2018.

### **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 March 31, 2018, was \$1,985,465,000 (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.

## 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.

*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 quarter. If an arbitration results in a finding that a state did not diligently enforce the escrow requirements 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 one hundred-thirty million to one hundred-fifty million dollars (\$130,000,000-\$150,000,000). Tennessee and 23 other states have resolved the NPM Adjustment disputes for 2003-2015 in a settlement with the participating tobacco manufacturers. However, as of January 1, 2016 Tennessee is once again subject to the potential for an NPM Adjustment to be applied if its diligent enforcement efforts, or lack thereof, are 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 still being litigated. Thus any arbitration for 2016 most likely would 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. On November 10, 2015, the Supreme Court appointed Judge Eugene E. Siler, Jr., to be the Special Master; Judge Siler served full-time on the U.S. Court of Appeals for the Sixth Circuit 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. On August 12, 2016, the Special Master issued his decision denying Tennessee's motion for judgment on the pleadings. While the Special Master agreed with Tennessee's argument that Mississippi has no enforceable property right to the unapportioned ground water in the aquifer, the Special Master viewed this legal argument as premised on the factual question of whether the aquifer is an interstate water resource, and thought that a limited evidentiary hearing on this question would be appropriate. An October 26, 2016, Case Management Plan, as amended, set forth a schedule for discovery in preparation for the evidentiary hearing. In accordance with that plan, all discovery was completed in September 2017. A November 1, 2017, Joint Case Management Plan, as amended, sets monthly deadlines through March 20, 2018, for the parties to exchange material fact statements and responses culminating with a joint final statement of undisputed and disputed facts. Also, on March 20, 2018, the parties are to submit a joint proposed order setting forth their plan for the hearing and any pre- or post-hearing briefing.

*Illinois Central Railroad Co. v. Tenn. Dept. of Revenue, et al.* (6th Cir. Ct. App.; U.S. D.C. M.D. Tenn.; Davidson Co. Chancery Ct.); *BNSF Railway Co., et al. v. Tenn. Dept. of Revenue* (6<sup>th</sup> Cir. Ct. App.; U.S. D.C. 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, and Tennessee appealed. Before the Sixth Circuit ruled on the appeal, however, the United States Supreme Court, in a very similar case from Alabama - in which Tennessee authored an amicus brief on behalf of 15 states - ruled that an alternative, roughly equivalent tax, such as the diesel-fuel tax, could sufficiently justify, and thus render non-discriminatory, the exemption of trucks from sales tax on their purchases and consumption of diesel fuel. The Sixth Circuit, without ruling on the appeal, then remanded the Tennessee case for further consideration in light of the Supreme Court's decision. Back in the district court, the parties filed cross-motions for summary judgment, and on April 12, 2017, the district court granted Tennessee's motion, denied Illinois Central's motion, vacated its earlier decision, and dissolved the permanent injunction entered earlier against Tennessee. Illinois Central filed an appeal, which now has been fully briefed and is set for oral argument before the Sixth Circuit on March 7, 2018. Refunds of approximately one hundred fifty million dollars (\$150,000,000), plus interest, 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 district court's denial of motions for preliminary injunctions, ruling that the new Tennessee law does not single out railroads, but that court has remanded to the district court for further consideration of the railroads' claims of discrimination as compared to their other 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. Further proceedings in the BNSF case are being held in abeyance pending the outcome of Illinois Central. A ruling by the Sixth Circuit in Illinois Central that the diesel-fuel tax and the sales tax are alternative, roughly equivalent taxes is likely to substantially dispose of the remaining issues in BNSF.

In light of the principles announced in the United States Supreme Court and Sixth Circuit decisions, the State believes it likely will eventually prevail in these cases, that the Chancery Court refund actions likely will be dismissed, and that it likely 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 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 was tried in October and November 2016. The State conceded a separate issue concerning Comcast's reporting of consolidated net worth for franchise tax purposes. The Chancery Court ruled in the State's favor in a decision issued on September 7, 2017, and Comcast has appealed to the Tennessee Court of Appeals. Briefing is underway and oral argument should be held in mid-2018. If the State should lose all remaining issues, the resulting refund for the litigated case and related matters would be approximately twenty-eight million dollars (\$28,000,000), plus interest and attorneys' fees. Because, the Chancery Court noted several separate bases on which the State should prevail, however; it is unlikely that Comcast will ultimately be entitled to a refund.

*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. and Metro. Bd. Of Pub. 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. On December 15, 2017, Shelby County was permitted to file an Amended Complaint and Davidson County's Metropolitan Board of Public Education was added as a co-Plaintiff. The essential claim of the Amended Complaint is that the State does not adequately fund public education in Tennessee. The Amended Complaint in this case goes beyond the relief sought in the Hamilton County case referred to above, by seeking full funding of the existing BEP funding formula (not the recommendations of the BEP Review Committee). In this case, Shelby and Davidson Counties seek 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 Plaintiffs' Amended 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.

*Measurement Incorporated v. State of Tennessee Department of Education*, Tennessee Claims Commission, Middle Division (Hibbett). Claimant is a full service education company with its principal offices located in Durham, North Carolina. Claimant states it entered into two multi-million dollar contracts (the "Contracts") with Tennessee Department of Education ("TDOE") that required Claimant to provide various test development, administration, scoring, and reporting services in connection with statewide education assessment testing. Claimant alleges that following execution of the Contracts, it commenced work and provided extensive services in close collaboration with TDOE personnel until April 27, 2016, when TDOE unilaterally cancelled the Contracts. Claimant alleges that TDOE has failed and refused to pay for anything more than a small and arbitrary percentage of the total amount owed under the Contracts for the time period November 15, 2014, through April 27, 2016, and that Claimant's damages are approximately twenty-five million dollars (\$25,000,000). TDOE believes that Claimant did not fully perform its obligations under the Contracts and that TDOE has strong legal and factual arguments supporting its defense and counterclaim against Claimant and that any judgment or settlement in this case would be less than the requested amount. However, there is no guarantee of such a result.

*Graham, et al. v. Parker, et al.*, ( U.S. D.C M.D. Tenn.). This is a class action brought against three Tennessee Department of Correction ("TDOC") officials, including the Commissioner. The District Court has certified a class consisting of all persons currently incarcerated in any TDOC-related facility who have Hepatitis C (HCV) infection. Plaintiffs allege ongoing violations of their Eighth and Fourteenth Amendment rights due to Defendants' deliberate indifference to the medical needs of HCV-infected inmates. Plaintiffs seek a permanent injunction against current TDOC practices and procedures related to the diagnosis and treatment of HCV-infected inmates. Plaintiffs request the Court to order TDOC to develop and implement a plan to eliminate the substantial risk of serious harm to HCV-infected inmates in accordance with current community standards of care and the advice of medical experts. Plaintiffs seek to require TDOC to treat all HCV-infected inmates with the use of FDA-approved direct-acting antiviral drugs ("DAAs"). TDOC medical personnel report that lab tests show that more than 4,000 inmates presently have chronic HCV infection. However, treatment of additional individuals would be necessitated as new infected inmates are introduced into the penal system. The Legislature has appropriated two million dollars (\$2,000,000) in the current fiscal year for acquisition of DAAs, which sum is contractually matched by the provider of medical services. At the time the lawsuit was brought, a course of treatment with DAAs for those with less severe compromise was estimated to cost a minimum of ninety thousand dollars (\$90,000) per individual. This amount per individual has been reduced to fifty-three thousand dollars (\$53,000) (as of June 2017) and, again, to twenty-seven thousand dollars (\$27,000) (as of September 2017). Even at the reduced drug prices, substantial additional costs to the State would result from an adverse judgment.

## **TAX MATTERS**

### **Opinions of Bond Counsel**

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 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 for

taxable years beginning prior to January 1, 2018. 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 Bonds from gross income under Section 103 of the Code.

In addition, 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 included within the measure of franchise and excise taxes.

Bond Counsel expresses no opinion regarding any other Federal or state 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 that may hereafter come to its attention, 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, or under state and local tax law.

For the proposed form of opinion of Bond Counsel relating to Federal and State 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.

#### *Original Issue Discount*

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable

to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

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

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

#### *Bond Premium*

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 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 Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium 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 paid 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.

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

## **SALE BY COMPETITIVE BIDDING**

The Bonds were awarded pursuant to electronic competitive bidding held on April 18, 2018. The Series A Bonds were sold to Morgan Stanley & Co. LLC at a price of \$180,307,212.14, which reflects original issue premium of \$26,107,770.95 and underwriter's discount of \$155,558.81. The Series B Bonds were sold to Goldman Sachs & Co. LLC at a price of \$37,660,717.65, which reflects original issue premium of \$2,258,759.40 and underwriter's discount of \$13,041.75.

The respective initial purchasers (each an "Initial Purchaser") have supplied the information as to the initial public offering prices of the Bonds set forth on the inside cover of this Official Statement with respect to the Bonds purchased by such Initial Purchaser. The Bonds may be offered and sold to certain dealers, banks and others at prices different than the public offering prices to be set forth on the inside cover page, and such public offering prices may be changed from time to time.

Morgan Stanley & Co. LLC, the Initial Purchaser of the Series A Bonds, has entered into a distribution agreement 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 Series A Bonds.

## **FINANCIAL ADVISOR**

PFM Financial Advisors LLC ("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. 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 the computation of forecasted receipts of principal and interest on the obligations deposited under the Refunding Escrow Agreement and the forecasted payments of principal and interest to redeem the Refunded Bonds was examined by Robert Thomas CPA, LLC. Such computations were based solely upon assumptions and information supplied by PFM on behalf of the State. Robert Thomas CPA, LLC. 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"), S&P Global Ratings ("Standard and Poor's") and Fitch Ratings ("Fitch") have given the Bonds ratings of Aaa, AAA, 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. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time and 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.

In connection with the issuance of the Bonds, the State reviewed the financial information, operating data and event notices filed by the State within the preceding five years with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system pursuant to the State’s Rule 15c2-12 continuing disclosure undertakings and identified, among other things, the following. Watkins Institute is not deemed to be a component unit of the State and its financial information, including indebtedness, is not reported in the State’s CAFR; accordingly no information on its indebtedness (totaling approximately \$846,000 as of March 31, 2018) was reported to EMMA and will not be reported in the future. Information regarding TennCare budgeted expenditures (the “TennCare Information”) presented in tabular format in relevant Official Statements was not presented in such format in the State’s CAFRs, but current-year budgeted and actual TennCare expenditures were presented in each of the State’s CAFRs. Certain TCRS information (the “TCRS Information presented in tabular format in relevant Official Statements (Unfunded Liability if Actuarial Value of Assets were Valued at Market; Historical Funding Progress Based on Fiduciary Net Position/Market Value of Assets; Historical Fiduciary Net Position/Market Value of Assets; Comparison of Market Value of Assets to Actuarial Value of Assets; and Cash Flows) was reported in different form in the State’s CAFR and the comprehensive annual financial report of the TCRS filed by the State each year; in addition, both the TennCare Information and the TCRS Information were also included in the same tabular format in Official Statements posted on EMMA in the last five years, except for actuarial valuation information that was not included in the 2015 Official Statement because of changes in GASB accounting rules. The foregoing results of the State’s continuing disclosure review are provided without regard to the materiality of the identified information.

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.

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 Basic Financial Statements, for the fiscal year ended June 30, 2017 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, Cordell Hull State Office Building, 4<sup>th</sup> Floor, 425 Fifth Avenue North, Nashville, Tennessee 37243-1402, telephone (615) 401-7872, fax (615) 741-5986. The 2017 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 2017 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, 2017 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, Cordell Hull State Office Building, 4<sup>th</sup> Floor, 425 Fifth Avenue North, Nashville, Tennessee 37243-1402, telephone (615) 401-7872, fax (615) 741-5986. The 2017 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 2017 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  
2018 SERIES A, \$154,355,000  
2018 REFUNDING SERIES B, \$35,415,000**

Dear Sirs:

At your request we have examined into the validity of \$154,355,000 General Obligation Bonds, 2018 Series A (the "Series A Bonds"), \$35,415,000 General Obligation Bonds, 2018 Refunding Series B (the "Series B Bonds" and, collectively with the Series A Bonds, the "Bonds") of the State of Tennessee (the "State"). The Bonds are dated as of the date hereof, and mature, are subject to redemption prior to maturity, are payable and bear interest, all as provided in the resolution of the Funding Board hereinafter mentioned.

The Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and laws of the State, including specifically Title 9, Chapter 9, Tennessee Code Annotated, various Public Acts of the General Assembly of the State of Tennessee, and a resolution adopted by the Funding Board of the State of Tennessee on May 2, 2018, 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 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 for taxable years beginning prior to January 1, 2018. 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 included within the measure of franchise and excise taxes.

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 April 18, 2018 (or any update or amendment thereof or supplement thereto) relating to the Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Bonds.

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

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

Very truly yours,

**BOOK-ENTRY ONLY SYSTEM**

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

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

## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated and made as of May 3, 2018, by the State of Tennessee (the “State”) in connection with the issuance of the State’s \$154,355,000 aggregate principal amount of General Obligation Bonds, 2018 Series A, and \$35,415,000 aggregate principal amount of General Obligation Bonds 2018 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 March 2, 2018, 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
- 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
  - 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 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 April 18, 2018, 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, 2017, by no later than 7 months after the end of the respective fiscal year, to the MSRB.

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

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

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

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

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

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Notice Event Notice, in addition to that which is required by this Undertaking. If the State chooses to do so, the State shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

## ARTICLE III

### Operating Rules

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

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

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

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

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

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

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

#### ARTICLE IV

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

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

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

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

Section 4.2. Amendment. (a) This Undertaking may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the State or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the State shall have received either an opinion of Counsel or a determination by a person, in each case unaffiliated with the State, to the effect that the amendment does not materially impair the interests of the holders of the outstanding Bonds, and (5) the State shall have delivered copies of such opinion(s) and amendment to the MSRB.

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

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

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

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

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

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

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

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

STATE OF TENNESSEE

By: \_\_\_\_\_

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



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**NOTICE OF SALE**

Dated April 9, 2018

**State of Tennessee**

**General Obligation Bonds**

**\$155,855,000\* 2018 Series A**  
**\$35,565,000\* 2018 Refunding Series B**

Electronic Bids, as Described Herein  
Will Be Accepted Until

9:30 a.m. Central Daylight Time\*\*  
for Series A Bonds

*and*

10:00 a.m. Central Daylight Time\*\*  
for Series B Bonds

on April 18, 2018

\* Subject to change both before the sale date and time, and after award, as provided herein.

\*\* Subject to change before the sale date and time as provided herein.

## CONTACTS

### Issuer

#### State of Tennessee

Sandra Thompson  
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### Issuer's Bond Counsel

#### Hawkins Delafield & Wood LLP

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sturner@hawkins.com

### Financial Advisor

#### PFM Financial Advisors LLC

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(901) 682-8356  
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lowel@pfm.com

### BiDCOMP™/PARITY®

Customer Service

(212) 849-5021

### i-Deal Prospectus

Customer Service

(212) 849-5024

**NOTICE OF SALE**

Dated April 9, 2018

**State of Tennessee  
General Obligation Bonds  
\$155,855,000\* 2018 Series A  
\$35,565,000\* 2018 Refunding Series B**

*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 \$155,855,000\* General Obligation Bonds, 2018 Series A (the “Series A Bonds”) and/or (ii) separately, the \$35,565,000\* General Obligation Bonds, 2018 Refunding Series B (the “Series B Bonds” and, together with the Series A Bonds, the “Bonds”), to be issued by the State of Tennessee (the “State”).

DATE: April 18, 2018\*\*

TIME: Series A Bonds: 9:30 a.m. Central Daylight Time\*\*  
Series B Bonds: 10:00 a.m. Central Daylight 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 April 9, 2018 (the “Preliminary Official Statement”) relating to the Bonds, available at the i-Deal Prospectus website, [www.i-dealprospectus.com](http://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 the sale date and time, 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 News at the website address [www.tm3.com](http://www.tm3.com) not later than 12:00 Noon, Central Daylight 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 News at the website address [www.tm3.com](http://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]

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\* Subject to change both before the sale date and time, and after award, as provided herein.

\*\* Subject to change before the sale date and time as provided herein.

**\$155,855,000 SERIES A BONDS BIDDING PARAMETERS TABLE\***

Description	Page No.	Description	Page No.
<b>DATES</b>		<b>REDEMPTION</b>	
Dated Date: Delivery Date	4	Optional On or after February 1, 2028 at 100%	4
Delivery Date: On or about May 3, 2018	4, 10	Mandatory: Each sinking fund installment date for term bonds at 100%	4
<b>INTEREST</b>		<b>PRICING</b>	
Interest Payment Dates: February 1 and August 1	4	Max. Reoffering Price:	
First Interest Payment: August 1, 2018	4	Each Maturity: N.A.	8
Coupon Multiples: 1/8 or 1/20 of 1%	8	Aggregate: 120.0%	8
Maximum Coupon: 5.00%	8	Min. Reoffering Price:	
Minimum Coupon: 5.00% on and after February 1, 2029	8	Each Maturity: 98.5%	8
Maximum TIC: 5.00%		Aggregate: 100%	8
<b>PRINCIPAL</b>		<b>PROCEDURAL</b>	
Adjustments-Increases:	8-9	Bid Submission: PARITY® only	1, 7
Each Maturity: + 20%	8-9	All or None?: Yes	7, 8
Aggregate: + 15%		Bid Award Method: Lowest TIC	8
Adjustments-Decreases:	8-9	Bid Confirmation: Fax signed PARITY® screen	7
Each Maturity: -20%	8-9	Award of Bid: Within 6 hours	1, 8
Aggregate: -15%		Good Faith Deposit: \$1,550,000	9
Term Bonds: One or more on or after February 1, 2029 (sinking fund installments must equal amortization)	4		

**PRINCIPAL MATURITIES**

Year (February 1)	Principal Amount**
2019 NC	\$ 7,790,000
2020 NC	7,795,000
2021 NC	7,795,000
2022 NC	7,795,000
2023 NC	7,795,000
2024 NC	7,795,000
2025 NC	7,795,000
2026 NC	7,795,000
2027 NC	7,795,000
2028 NC	7,795,000

Year (February 1)	Principal Amount**
2029 T	\$ 7,795,000
2030 T	7,795,000
2031 T	7,790,000
2032 T	7,790,000
2033 T	7,790,000
2034 T	7,790,000
2035 T	7,790,000
2036 T	7,790,000
2037 T	7,790,000
2038 T	7,790,000

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 the sale date and time, and after award, as provided herein.

**\$35,565,000 REFUNDING SERIES B BONDS BIDDING PARAMETERS TABLE\***

Description	Page No.	Description	Page No.
<b>DATES</b>		<b>REDEMPTION</b>	
Dated Date: Delivery Date	5	Optional: None	5
Delivery Date: On or about May 3, 2018	5, 11	Mandatory: None	5
<b>INTEREST</b>		<b>PRICING</b>	
Interest Payment Dates: February 1 and August 1	5	Max. Reoffering Price:	
First Interest Payment: August 1, 2018	5	Each Maturity: N.A.	6-7
Coupon Multiples: 1/8 or 1/20 of 1%	8	Aggregate: 120.0%	6-7
Maximum Coupon: 4.00%	8	Min. Reoffering Price:	6-7
Minimum Coupon: N.A.	8	Each Maturity: 98.5%	6-7
Maximum TIC: 5.00%	8	Aggregate: 100%	
<b>PRINCIPAL</b>		<b>PROCEDURAL</b>	
Adjustments-Increases:		Bid Submission: PARITY® only	1, 7
Each Maturity: + 20%	8-9	All or None?: Yes	7, 8
Aggregate: + 15%	8-9	Bid Award Method: Lowest TIC	8
Adjustments-Decreases:		Bid Confirmation: Fax signed PARITY® screen	5
Each Maturity: -20%	8-9	Award of Bid: Within 6 hours	1, 8
Aggregate: -15%	8-9	Good Faith Deposit: \$355,000	9
Term Bonds: None	5		

**PRINCIPAL MATURITIES**

Year (August 1)	Principal Amount**
2019 NC	\$7,225,000
2020 NC	7,175,000
2021 NC	7,120,000
2022 NC	7,060,000
2023 NC	6,985,000

NC: Non-callable.

\* 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 the sale date and time, 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 A 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 Series A 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. Series A 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 Series A Bonds of the same maturity.

Series B Bonds may not be designated as term bonds.

### *Optional Redemption*

The Series A Bonds maturing on or before February 1, 2028 will not be subject to optional redemption prior to their respective maturity dates. The Series A Bonds maturing on or after February 1, 2029, may be redeemed prior to their respective maturity dates at the option of the State on and after February 1, 2028, 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 A 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 B Bonds will not be subject to optional redemption prior to their respective maturity dates.

## *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 of each series will be issued to The Depository Trust Company (“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<sup>®</sup> 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 A Bonds, and/or (ii) separately the Series B 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> is not acting as the State’s agent.

If any provisions of this Notice of Sale conflict with information provided by PARITY<sup>®</sup>, this Notice of Sale shall control. The State is not bound by any advice or determination of PARITY<sup>®</sup> as to whether any bid complies with the terms of this Notice of Sale. The time as maintained by PARITY<sup>®</sup> 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<sup>®</sup> directly for information about PARITY<sup>®</sup>, including its rules and fees, and becoming a contracted customer. (See the Contacts page of this Notice of Sale.) By contracting with BiDCOMP<sup>™</sup>, a prospective bidder is not obligated to submit a bid in connection with the sale.

### *ESTABLISHED INDUSTRY REPUTATION REQUIRED OF BIDDERS*

**By submitting a bid for the Bonds, each bidder certifies it has an established industry reputation for underwriting new issuances of municipal bonds.** The State will not accept bids from firms without an established industry reputation for underwriting new issuances of municipal bonds.

### *CONTENTS OF BID, INTEREST RATES, BID PRICES AND REOFFERING PRICES*

Bidders may bid for (i) the Series A Bonds, and/or (ii) by separate bid, for the Series B 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 A Bonds or Series B 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.

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. Reoffering prices must meet the criteria shown on the respective Bidding Parameters Table. 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 and will be included in the final Official Statement. See "ADJUSTMENTS OF AMOUNTS AND MATURITIES AFTER AWARD" below. The State will not include in the final Official Statement an "NRO" ("not reoffered") designation with respect to any maturity of the Bonds.

Reoffering prices for the Bonds also must be confirmed as described under "ESTABLISHMENT OF THE ISSUE PRICE" below.

Each winning bidder (a "Purchaser") will be responsible to the State in all respects for the accuracy and completeness of information provided by such Purchaser with respect to such reoffering.

### *AWARD*

The State expects to award the Series A Bonds and the Series B 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 A Bonds and the Series B 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 A Bonds and the Series B 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<sup>®</sup> 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 A Bonds or the Series B 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 Daylight Time, on the day following the sale.

The State may increase or decrease the aggregate principal amount of the Series A Bonds or the Series B 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 A Bonds or the Series B Bonds is revised after the award, the interest rate and reoffering price for each maturity and the Underwriter's discount on the Series A Bonds or the Series B Bonds, respectively, shall be held constant. The "Underwriter's discount" for each series 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 A Bonds and for the Series B 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.

#### *ESTABLISHMENT OF ISSUE PRICE*

If the State receives at least three (3) bona fide bids for each series of the Bonds, the issue price of the Bonds shall be established pursuant to Treasury Regulation Section 1.148-1(f)(2)(iii) based on the reasonably expected initial offering price to the public as of the sale date. Each Purchaser of a series of Bonds agrees to execute the Issue Price Certificate attached hereto as Exhibit A not later than 3:00 P.M., New York City time, on the business day prior to the date of delivery of the Bonds (by delivery of manually signed hard copy, or by electronic transmission confirmed with manually signed hard copy delivered the following day), with such modifications as may be appropriate or necessary in the reasonable judgment of the State or Bond Counsel. Each Purchaser agrees to take such actions, both before and after the award of the Bonds, as shall be necessary to enable it to satisfy the requirements of such Issue Price Certificate.

If the State does not receive at least three (3) bona fide bids for each series of the Bonds, the issue price of the Bonds shall be established pursuant to Treasury Regulation Section 1.148-1(f)(2)(ii) (the “hold-the-price” rule). Each Purchaser agrees to execute the Issue Price Certificate attached hereto as Exhibit B not later than 3:00 P.M., New York City time, on the business day prior to the date of delivery of the Bonds (by delivery of manually signed hard copy, or by electronic transmission confirmed with manually signed hard copy delivered the following day), with such modifications as may be appropriate or necessary in the reasonable judgment of the State or Bond Counsel. Each Purchaser agrees to take such actions, both before and after the award of the Bonds, as shall be necessary to enable it to satisfy the requirements of such Issue Price Certificate.

In either event, each Purchaser also will be required to provide to the State and Bond Counsel such additional information as may be requested by Bond Counsel.

#### *ADDITIONAL RESPONSIBILITIES OF PURCHASERS*

Each Purchaser agrees to make a bona fide public offering of all of the Bonds bid for, and represents that it shall reoffer such Bonds in compliance with all applicable securities laws of the jurisdictions in which such Bonds are offered.

#### *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 A Bonds up to 25 copies of the final Official Statement and to the successful bidder for the Series B Bonds up to 25 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, on or about the Delivery Date shown in the Bidding Parameters Tables or on 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 the 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 to accept delivery of and pay for the respective Bonds. The policies of the CUSIP Service Bureau will govern the assignment of specific numbers to the Bonds. Each successful bidder will be responsible for applying for and obtaining CUSIP numbers for the Bonds bid for promptly upon award of the bid. 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 bidders.

#### *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 the Office of State and Local 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

\$175,865,000

GENERAL OBLIGATION BONDS, 2016 SERIES A

\$124,900,000

GENERAL OBLIGATION BONDS, 2016 REFUNDING SERIES B

\$65,385,000

GENERAL OBLIGATION BONDS, 2016 REFUNDING SERIES C (FEDERALLY TAXABLE)

BOND PURCHASE AGREEMENT

July 27, 2016

The Funding Board of the State of Tennessee  
Nashville, Tennessee

Ladies and Gentlemen:

Citigroup Global Markets Inc. (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, 2016 Series A, in the original aggregate principal amount of \$175,865,000.00 (the "2016 Series A Bonds"), at an aggregate purchase price of \$218,252,389.22 (the "2016 Series A Purchase Price"), representing the aggregate principal amount of the 2016 Series A Bonds, plus a reoffering premium of \$42,513,156.35, less Underwriters' discount of \$125,767.13, (ii) General Obligation Bonds, 2016 Refunding Series B, in the original aggregate principal amount of \$124,900,000.00 (the "2016 Series B Bonds"), at an aggregate purchase price of \$160,554,673.22 (the "2016 Series B Purchase Price"), representing the aggregate principal amount of the 2016 Series B Bonds, plus a reoffering premium of \$35,745,897.10, less Underwriters' discount of \$91,223.88 and (iii) General Obligation Bonds, 2016 Refunding Series C (Federally Taxable), in the original aggregate principal amount of \$65,385,000.00 (the "2016 Series C Bonds" and, together with the 2016 Series A Bonds and the 2016 Series B Bonds, the "Bonds"), at an aggregate purchase price of \$65,337,789.30 (the "2016 Series C Purchase Price" and, together with the 2016 Series A Purchase Price and the 2016 Series B Purchase Price, the "Purchase Price"), representing the aggregate principal amount of the 2016 Series C Bonds, less Underwriters' discount



of \$47,210.70. The Bonds shall mature on the dates and shall bear interest from their dated date at the rates and shall be subject to redemption prior to maturity as set forth in the Official Statement (hereinafter defined) and on Appendix II attached hereto. The Bonds shall be payable at the times and in the manner, and shall otherwise have the terms and provisions, set forth in the Official Statement.

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

B. Delivery of and Payment for the Bonds.

1. At or prior to 11:30 a.m., prevailing time in Nashville, Tennessee on August 25, 2016, the date of delivery and payment for the Bonds (the "Closing Date"), or at such other time or date as shall have been mutually agreed upon by the Issuer and the Representative, the Issuer will deliver or cause to be delivered to the Representative, the Bonds, qualified for book-entry delivery through The Depository Trust Company ("DTC") in New York, New York, in definitive form, duly executed by officers of the Issuer designated in the Resolution (as defined herein), together with the other documents hereinafter mentioned; and, subject to the conditions contained herein, the Representative will accept such delivery and pay the Purchase Price by wire transfer of immediately available funds payable to the order of the Issuer.
2. The Issuer and the Representative agree that there shall be a preliminary closing held at the Office of State and Local Finance of the State of Tennessee, 505 Deaderick Street, Suite 1600, Nashville, Tennessee, commencing at least 10 hours prior to the Closing Date, or at such other time or place as the Issuer and the Representative shall agree.
3. Delivery of the definitive Bonds as aforesaid shall be made at the offices of DTC in New York, New York, or at such other location as may be designated by the Representative at least one business day prior to the Closing Date. Payment for the Bonds shall be made as set forth in Section B.1. hereof. The delivery of the other documents shall be made at the Office of State and Local Finance of the State of Tennessee or at the offices of the Attorney General of the State of Tennessee ("Counsel to the Issuer"), John Sevier Building, 425 Fifth Avenue North, Nashville, Tennessee. Such payment and the related delivery are herein called the "Closing." The Bonds will be delivered as fully-registered bonds, bearing proper CUSIP numbers, and registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds.
4. After execution by the Issuer, the Bonds shall be held in safe custody at DTC. The Issuer shall release or authorize the release of the Bonds from safe custody at the Closing upon receipt of payment for the Bonds as aforesaid.

C. Official Statement.

1. Prior to the date hereof, the Issuer has provided to the Underwriters for their review the preliminary official statement dated July 19, 2016 (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](http://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](http://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 June 9, 2016 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 2016 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 2016 Series A Bonds.
  3. The net proceeds from the sale of the 2016 Series B Bonds will be applied to the: (i) refunding of the Issuer's outstanding General Obligation Bonds, 2010 Series A, dated October 27, 2010, maturing May 1, 2024, May 1, 2026 and May 1, 2029 through May 1, 2031, inclusive; and General Obligation Bonds, 2011 Series A, dated October 26, 2011, with portions maturing October 1, 2023 through October 1, 2031, inclusive (collectively, the "Series B Refunded Bonds"); and (ii) payment of certain costs of issuance of the 2016 Series B Bonds.
  4. The net proceeds from the sale of the 2016 Series C Bonds will be applied to the: (i) refunding of the Issuer's outstanding General Obligation Bonds, 2008 Series B (Federally Taxable), dated September 1, 2008, maturing September 1, 2020 through September 1, 2024, inclusive, and September 1, 2028; General Obligation Bonds, 2009 Series D (Federally Taxable), dated December 16, 2009, maturing May 1, 2023, May 1, 2024 and May 1, 2029; and General Obligation Bonds, 2011 Series A, dated October 26, 2011, with portions maturing October 1, 2023 through October 1, 2031, inclusive (collectively, the "Series C Refunded Bonds" and, together with the Series B Refunded Bonds, the "Refunded Bonds"); and (ii) payment of certain costs of issuance of the 2016 Series C Bonds.

5. In connection with the refunding of the Refunded Bonds, the Issuer will enter into Refunding Trust Agreements, dated as of the Closing Date (collectively, 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: (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", "AAA" 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 Robert Thomas CPA, LLC, described in the Official Statement under the caption "Verification Agent";
- o) Such additional legal opinions, signatures, other certificates and other instruments and documents, including but not limited to a comfort letter addressed to the Underwriters by the Issuer's auditors, 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 at 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 in the light of the circumstances under which they were made not misleading in any material respect and, in either such event, (a) the Issuer refuses to permit the Official Statement to be supplemented to supply such statement or information in a manner satisfactory to the Underwriter or (b) the effect of the Official Statement, as so supplemented, in the reasonable judgment of the Underwriters, would materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriters to enforce contracts for the sale, at the contemplated offering prices (or yields), 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 or by the staff of such committee or presented as an option for consideration by either such committee or by the staff of 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 federal or state taxation of interest received on obligations of the general character of any of the Bonds which, in the reasonable judgment of the Underwriters, materially adversely affects the market price or marketability of one or more series of the Bonds or the ability of the Underwriters to enforce contracts for the sale, at the contemplated offering prices (or yields), 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 (including any related underlying obligations) 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 (1) any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war, (2) any other calamity or crisis in the financial markets of the United States or elsewhere, (3) a downgrade of the sovereign debt rating of the United States by any major credit rating agency or payment default on United States Treasury obligations, or (4) a default with respect to the debt obligations of, or the institution of proceedings under any federal bankruptcy laws by or against, any state of the United States or any city, county or other political subdivision located in the United States having a population of over 1,000,000, the effect of which on financial markets is such as to, in the reasonable judgment of the Underwriters, materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriters to enforce contracts for the sale, at the contemplated offering prices (or yields) of the Bonds; 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, in the reasonable judgment of the Underwriters, materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriters to enforce contracts for the sale, at the contemplated offering prices (or yields) of the Bonds; 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, in the reasonable judgment of the Underwriters, materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriters to enforce contracts for the sale, at the contemplated offering prices (or yields) of the Bonds; 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. Expenses of the Underwriters, including fees and expenses of Underwriters' counsel and the fees of Digital Assurance Certification, L.L.C. for a continuing disclosure undertaking compliance review, shall be paid or reimbursed through the expense component of the Underwriters' discount
2. The Underwriters shall pay (from the expense component of the Underwriters' discount) 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 expense component of the Underwriters' discount) incurred on behalf of Issuer's employees which are directly related to the offering of the Bonds, including, but not limited to, meals, transportation and lodging 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 the Securities Act or Exchange Act (the "Indemnitees") against any and all losses, claims, damages, liabilities or expenses (or actions in respect thereof) (each, a "Claim") that are caused by, arise out of or are based upon any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact relating to the Issuer made, provided or certified by the Issuer or any agent thereof and contained in the Preliminary Official Statement or the Official Statement, or caused by, arising out of or based upon any omission or alleged omission from the Preliminary Official Statement or the Official Statement of any material fact relating to the Issuer necessary in order to make the statements made therein in the light of the circumstances under which they were made not misleading, except with respect to matters described in paragraph 2 below. In case any action shall be brought against any person indemnified pursuant to this Section and in respect of which indemnity may be sought against the Issuer, such person shall promptly notify the Issuer in writing, and the Issuer shall promptly assume the defense thereof,

including the employment of counsel reasonably satisfactory to such person, and the payment of all expenses, provided that the Issuer shall have the right to negotiate and consent to settlement and such person shall cooperate with the Issuer in such defense. Such person shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such person unless the employment of such counsel has been specifically authorized by the Issuer. The Issuer shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Issuer or if there be a final judgment for the plaintiff in any such action, with or without consent, the Issuer shall indemnify and hold harmless such party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding anything above to the contrary, the Issuer shall not consent to any settlement under which an indemnified party admits guilt to any allegation without the consent of such person.

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

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

O. No Advisory or Fiduciary Role.

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

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

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

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

Citigroup Global Markets Inc  
11780 US Highway One, Suite 201  
North Palm Beach, Florida 33408  
Attention: Michael Hole, Managing Director  
Facsimile: 561-694-7086

- 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,

CITIGROUP GLOBAL MARKETS INC., on behalf of itself and as Representative of the other Underwriters listed in Appendix I hereto

By: Michael Hole  
Name: Michael Hole  
Title: Managing Director

ACCEPTED:

FUNDING BOARD OF THE  
STATE OF TENNESSEE

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

Date: July 27, 2016

Time: 11:49 Am

APPENDIX I

To

Bond Purchase Agreement

UNDERWRITERS

**Representative and Senior Manager**

Citigroup Global Markets Inc.

**Co-Managers**

Merrill Lynch, Pierce, Fenner and Smith Incorporated

Morgan Stanley & Co. LLC

Wells Fargo Bank, National Association

APPENDIX II

To

Bond Purchase Agreement

**\$175,865,000**

**GENERAL OBLIGATION BONDS, 2016 SERIES A**

Maturity Date	Amount	Rate	Yield	Price
8/1/2017	\$8,790,000	3 000%	0 450%	102 372
8/1/2018	\$8,795,000	5 000%	0 540%	108 565
8/1/2019	\$8,795,000	5 000%	0 610%	112 743
8/1/2020	\$8,795,000	5 000%	0 760%	116 399
8/1/2021	\$8,795,000	5.000%	0 880%	119 847
8/1/2022	\$8,795,000	5 000%	1 040%	122 727
8/1/2023	\$8,795,000	5 000%	1 180%	125 358
8/1/2024	\$8,795,000	5.000%	1 300%	127 803
8/1/2025	\$8,795,000	5 000%	1 400%	130 130
8/1/2026	\$8,795,000	5 000%	1 500%	132 187
8/1/2027	\$8,795,000	5 000%	1 600%	131 110 C
8/1/2028	\$8,795,000	5 000%	1 680%	130 256 C
8/1/2029	\$8,795,000	5 000%	1.740%	129 619 C
8/1/2030	\$8,795,000	5.000%	1 790%	129 091 C
8/1/2031	\$8,790,000	5 000%	1 820%	128 776 C
8/1/2032	\$8,790,000	5 000%	1 870%	128.253 C
8/1/2033	\$8,790,000	5 000%	1 920%	127 732 C
8/1/2034	\$8,790,000	5 000%	1.960%	127 317 C
8/1/2035	\$8,790,000	5 000%	2 010%	126 800 C
8/1/2036	\$8,790,000	5 000%	2.050%	126 389 C
<b>\$175,865,000</b>				

C = Priced to call date of August 1, 2026

*Optional Redemption.*

At the option of the Issuer, the 2016 Series A Bonds maturing on or after August 1, 2027 are subject to redemption prior to their respective stated maturities, from any monies that are available to the Issuer for such purpose, at any time on and after August 1, 2026, 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.

**\$124,900,000**  
**GENERAL OBLIGATION BONDS, 2016 REFUNDING SERIES B**

Maturity Date	Amount	Rate	Yield	Price	
2/1/2017	\$2,795,000	5.000%	0.400%	101.989	
8/1/2023	\$16,670,000	5.000%	1.180%	125.358	
8/1/2024	\$9,365,000	5.000%	1.300%	127.803	
8/1/2025	\$16,810,000	5.000%	1.400%	130.130	
8/1/2026	\$9,365,000	5.000%	1.500%	132.187	
8/1/2027	\$9,365,000	5.000%	1.600%	131.110	C
8/1/2028	\$16,945,000	5.000%	1.680%	130.256	C
8/1/2029	\$17,055,000	5.000%	1.740%	129.619	C
8/1/2030	\$17,170,000	5.000%	1.790%	129.091	C
8/1/2031	\$9,360,000	5.000%	1.820%	128.776	C
<b>\$124,900,000</b>					

C = Priced to call date of August 1, 2026

*Optional Redemption.*

At the option of the Issuer, the 2016 Series B Bonds maturing on or after August 1, 2027 are subject to redemption prior to their respective stated maturities, from any monies that are available to the Issuer for such purpose, at any time on and after August 1, 2026, 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.

**\$65,385,000**  
**GENERAL OBLIGATION BONDS, 2016 REFUNDING SERIES C (FEDERALLY TAXABLE)**

Maturity Date	Amount	Rate	Yield	Price
2/1/2017	\$2,110,000	0.630%	0.630%	100.000
8/1/2018	\$1,405,000	0.966%	0.966%	100.000
8/1/2019	\$1,415,000	1.123%	1.123%	100.000
8/1/2020	\$2,105,000	1.295%	1.295%	100.000
8/1/2021	\$2,090,000	1.445%	1.445%	100.000
8/1/2022	\$4,980,000	1.749%	1.749%	100.000
8/1/2023	\$7,390,000	1.849%	1.849%	100.000
8/1/2024	\$7,350,000	1.966%	1.966%	100.000
8/1/2025	\$7,305,000	2.066%	2.066%	100.000
8/1/2026	\$7,270,000	2.116%	2.116%	100.000
8/1/2027	\$7,235,000	2.166%	2.166%	100.000
8/1/2028	\$7,210,000	2.266%	2.266%	100.000
8/1/2029	\$2,565,000	2.366%	2.366%	100.000
8/1/2030	\$2,505,000	2.516%	2.516%	100.000
8/1/2031	\$2,450,000	2.666%	2.666%	100.000
<u>\$65,385,000</u>				

*Optional Redemption.*

At the option of the Issuer, the 2016 Series C Bonds maturing on or after August 1, 2027 are subject to redemption prior to their respective stated maturities, from any monies that are available to the Issuer for such purpose, at any time on and after August 1, 2026, 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.

Prior to August 1, 2026, the 2016 Series C Bonds are subject to redemption prior to their stated maturities at the option of the Issuer, at any time as a whole or in part, from time to time, in any order of maturity as determined by the Issuer, at a redemption price equal to the Make-Whole Redemption Price (as defined below).

The "Make-Whole Redemption Price" of any 2016 Series C Bonds to be redeemed is an amount equal to the greater of (i) 100% of the principal amount of such 2016 Series C Bonds or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2016 Series C Bonds not including any portion of those payments of interest accrued and unpaid as of the date on which such 2016 Series C Bonds are to be redeemed, discounted on a semiannual basis to the date on which such 2016 Series C Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus twenty (20) basis points; plus, in each case, accrued and unpaid interest on such 2016 Series C Bonds on such redemption date.

"Treasury Rate" means, with respect to any redemption date for any particular 2016 Series C Bond, the greater of:

(i) the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Issuer at the Issuer's expense and such determination shall be conclusive and binding on the owners of the 2016 Series C Bonds, or

(ii) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for a particular 2016 Series C Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of the 2016 Series C Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular 2016 Series C Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by the Issuer.

"Reference Treasury Dealer" means each of the four firms, specified by the Issuer from time to time, that are primary United States government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Issuer will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2016 Series C Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third business day preceding such redemption date.

The redemption price of such 2016 Series C Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Issuer to calculate such redemption price. The Issuer may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated and made as of May 3, 2018, by the State of Tennessee (the “State”) in connection with the issuance of the State’s \$154,355,000 aggregate principal amount of General Obligation Bonds, 2018 Series A and \$35,415,000 aggregate principal amount of General Obligation Bonds, 2018 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 March 2, 2018, 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
- 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
  - 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 April 18, 2018, 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, 2017, by no later than 7 months after the end of the respective fiscal year, to the MSRB.

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

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

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

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

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

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

that which is required by this Undertaking. If the State chooses to do so, the State shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

### ARTICLE III

#### Operating Rules

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

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

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

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

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

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

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

### ARTICLE IV

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

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

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

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

Section 4.2. Amendment. (a) This Undertaking may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the State or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the State shall have received either an opinion of Counsel or a determination by a person, in each case unaffiliated with the State, to the effect that the amendment does not materially impair the interests of the holders of the outstanding Bonds, and (5) the State shall have delivered copies of such opinion(s) and amendment to the MSRB.

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

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

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

Section 4.3. Contract; Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-

party beneficiaries of this Undertaking and shall be deemed to be holders of Bonds for purposes of Section 4.3(b) hereof. The provisions of this Undertaking shall create no rights in any person or entity except as provided in this subsection (a).

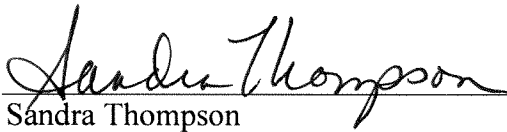
(b) The obligations of the State to comply with the provisions of this Undertaking shall be enforceable by any holder of outstanding Bonds; however, the holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance,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

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

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

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

STATE OF TENNESSEE

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



June 24, 2019

Ms. Sandi Thompson  
Director  
Office of State and Local Finance  
Tennessee Comptroller of the Treasury  
Cordell Hull Building  
425 Fifth Avenue North, 4<sup>th</sup> Floor  
Nashville, TN 37243

**pfm**

530 Oak Court Dr.  
Suite 160  
Memphis, TN 38117  
901.682.8356

**pfm.com**

Dear Ms. Thompson:

PFM, as Financial Advisor to the State of Tennessee (the “State”), is recommending the State execute a competitive sale for its upcoming General Obligation bond issue which is scheduled to price in September 2019.

***Basis for Recommendation***

Competitive bond sales can offer several advantages over negotiated sales. A competitive sale typically assures the lowest interest rates. While underwriting firms may attempt to secure the best interest rates for the issuer, different firms have different perceptions of the market and cater to various investor requirements. This is evidenced by the fact that there are seldom two identical bids submitted at a competitive sale. In addition, interest rate differentials in excess of 1/4% between low and high bidders in a competitive sale are not uncommon.

In spite of the advantages of competitive sales, some bond issue structures and certain market factors create conditions in which a negotiated sale may be the preferred sale method. The State should select a method of sale based on a thorough analysis of the relevant rating, security and structure pertaining to the proposed bond issue. The following table outlines the general conditions favoring each method of sale.

Attributes	Competitive Sale	Negotiated Sale	Relevance to the State
Issuer			
<i>Type of Organization</i>	Broad-based, general-purpose government	Special-purpose, independent authority	The State’s General Obligation credit lends itself to a Competitive Sale.
<i>Frequency of Issuance</i>	Regular borrower in public market	New or infrequent issuer of debt	The State is a regular borrower in the municipal markets.
<i>Market Awareness</i>	Active secondary market with wide investor base	Little or no institutional base, but growing dealer interest	The State has received favorable investor interest on prior sales.



Credit Quality			
<i>Rating</i>	"A" or better	Below single "A"	The State's strong triple-A credit is expected to be received favorably in the competitive market.
<i>Pledged Revenues</i>	General obligation	Project supported revenues	The State will issue general obligation bonds.
<i>Security Structure</i>	Conventional resolution and cashflow; rate covenant and coverage	Unusual or weak covenants; subordinated debt	The State will issue under the existing general bond resolution.
<i>Trend</i>	Stable	Improving or under stress	The State has a stable triple-triple A rating (Aaa/AAA/AAA).
<b>Attributes</b>	<b>Competitive Sale</b>	<b>Negotiated Sale</b>	<b>Relevance to the State</b>
Market Conditions			
<i>Interest Rates</i>	Stable, predictable market	Volatile or declining market	While interest rates have risen over the last month, they are significantly lower than 1 year ago.
<i>Demand</i>	Strong investor demand, good liquidity, light forward calendar	Oversold market, heavy supply	The current market for long-term, fixed rate, higher grade paper is strong.
Debt Structure			
<i>Tax Status</i>	Tax-exempt, no concerns	Taxable	The 2019 Bonds will be tax-exempt.
<i>Debt Instrument</i>	Traditional serial and term, full-coupon bonds	Aggressive use of innovative bond structuring, derivative products, swaps, or variable-rate debt instruments	The State plans to sell traditional serial and/or term bonds.

**Market Timing**

Many proponents of negotiated sales argue that a negotiated sale provides greater flexibility in timing of the bond's offering. In either method of sale, the issuer selects a tentative pricing date and retains the flexibility to change this date, if needed. In a competitive bond sale, the State's Notice of Sale will allow the State to cancel or change the pricing date until noon on the day preceding the competitive sale. Given either sale methodology, the process of marketing the bonds should begin one or two weeks prior to the pricing date. Should the municipal market become unsettled or volatile, the State can postpone the bond pricing until a more favorable market exists.



PFM will closely monitor the municipal market as it relates to investor demand and interest rates in order to strike a balance between the State's financial objectives and investor preferences.

***PFM's Pricing Group***

PFM possesses industry-leading expertise and experience in regard to both competitive and negotiated bond sales. PFM has a dedicated, in-house bond Pricing Group which has been consulted through our evaluation and recommendation of a competitive bond sale to the State. PFM will also rely on our Pricing Group to prepare the parameters to be included in the Notice of Sale.

***Debt Management Policy Consideration***

A competitive sale process seeks to achieve broad market participation and access and is in compliance with the State's adopted Debt Management Policy.

***Market Supply***

Municipal supply was minimized in 2018, following the increased supply at the end of 2017 ahead of tax reform. The lack of municipal bond supply has continued into 2019. 2019 is also expected to be a heavy redemption volume year resulting in an influx of cash to investors. The influx of cash to investors combined with reduction of supply creates a supply-demand imbalance that strongly favors municipal issuers, like the State. Year-to-date, interest rates have declined an average of 62.5 bps (0.625%) in years 1-20. The resulting high demand and low supply puts the municipal market in a very strong position regardless of the level of interest rates.

***Other Current Events***

At this time, the market does not anticipate the Fed will increase rates at any time in 2019. The recent reduction in interest rates during 2019 is likely a result of the softer tone expected by the Fed during 2019.

***Recommendation***

Considering the above, PFM continues to believe that a competitive sale process is optimal for the State's 2019 General Obligation bond issue. We believe that the competitive sale process will encourage the underwriters with whom the State already works to offer their best price while also providing the State with an indication of other investment banking firms that are interested in doing business with the State of Tennessee.

As reference materials, we have attached as Appendix A, a list of deals in Tennessee and other State issuers who have accessed the municipal market through a competitive process during June 2019.





We would be happy to provide additional insight or to discuss further. Please call if you have any questions (901) 682-8356.

We appreciate the opportunity to serve the State of Tennessee and value our relationship. We look forward to continued successful financings in the future.

Sincerely,

Lauren S. Lowe  
Managing Director  
PFM Financial Advisors LLC

Nick Yatsula  
Senior Managing Consultant  
PFM Financial Advisors LLC



Competitive Sale Results  
 6/1/2019 – 6/19/19  
 Appendix A

Tennessee Issuer (Various Credits/Tax Status)	Date	# of Bids	Moody's/S&P/Fitch
Haywood County	6/19/2019	4	NR/AA/NR (BAM Insurance)
Wilson County	6/18/2019	11	NR/AA+/NR
Erwin Utilities Authority	6/17/2019	4	NR/A/NR
Erwin Utilities Authority	6/17/2019	4	NR/A/NR
Coffee County	6/12/2019	3	NR/AA-/NR
Town of Smyrna	6/12/2019	9	Aa1/AA+/NR
West Knox Utility District	6/11/2019	3	NR/AA+/NR
City of Morristown	6/10/2019	9	NR/AA-/NR
Hawkins County	6/4/2019	9	Aa3/NR/NR
Williamson County	6/4/2019	12	Aaa/NR/NR
Williamson County	6/4/2019	11	Aaa/NR/NR

State Issuer (Various Credits/Tax Status)	Date	# of Bids	Moody's/S&P/Fitch
State of Georgia	6/19/2019	8	Aaa/AAA/AAA
State of Georgia	6/19/2019	7	Aaa/AAA/AAA
State of Georgia	6/19/2019	6	Aaa/AAA/AAA
State of Georgia	6/19/2019	7	Aaa/AAA/AAA
State of Texas	6/12/2019	11	Aaa/AAA/NR
State of Ohio	6/11/2019	10	Aa1/AA+/AA+
State of Arkansas	6/6/2019	7	Aa1/AA/NR
State of Washington	6/4/2019	6	Aa2/NR/NR
State of Washington	6/4/2019	9	Aa2/NR/NR

**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 470, Public Acts of Tennessee, 2011 (the “2011 Act”), to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Seventy-Three Million Dollars and no cents (\$273,000,000.00) of which Eighty-Seven Million, Five Hundred Thousand Dollars and no cents (\$87,500,000.00) is allocated to the Department of Transportation pursuant to Section 4(7) of the 2011 Act for the purpose of providing funds to be spent for the implementation of Phase III of the Tennessee transportation infrastructure improvement bond program for the construction of bridges and highways (the “2011 Bridge Construction Bonds”).

The Funding Board has previously canceled Twenty-Eight Million, Seven Hundred Thousand Dollars and no cents (\$28,700,000.00) of the 2011 Bridge Construction Bonds; none of the remaining Fifty-Eight Million, Eight Hundred Thousand Dollars and no cents (\$58,800,000.00) of the 2011 Bridge Construction Bonds principal amount authorized has been issued.

Section 6, Item 2 (b) of Chapter 1061, Public Acts of Tennessee, ( the “2018 Appropriations Act”) directs the Funding Board to cancel highway bonds in an amount equal to the conversion of federal funding related to the bridge construction bonds.

Based on notification from the Tennessee Department of Transportation (“TDOT”) that Twenty-Nine Million, One Hundred Thousand Dollars and no cents (\$29,100,000.00) of the 2011 Bridge Construction Bond authorization was converted to federal funding in the fiscal year ending June 30, 2019, the Commissioner of Finance and Administration by memorandum dated June 19, 2019, recommended that the Funding Board proceed with canceling Twenty-Nine Million, One Hundred Thousand Dollars and no cents (\$29,100,000.00) of the unissued 2011 Bridge Construction Bonds.

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

1. The projects authorized to be financed by the 2011 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 and no cents (\$29,100,000.00) is no longer needed to fund such authorized projects.
2. Twenty-Nine Million, One Hundred Thousand Dollars and no cents (\$29,100,000.00) of the unissued 2011 Bridge Construction Bonds are hereby cancelled.
3. This resolution shall be effective as of June 27, 2019, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2019.

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JUSTIN P. WILSON, SECRETARY  
TENNESSEE STATE FUNDING BOARD

**RESOLUTION CERTIFYING AND AUTHORIZING THE ALLOCATION OF FUNDS TO THE SINKING FUND FOR THE 2019-2020 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-32 of Chapter 405, Public Acts of Tennessee, 2019, (the “2019 Appropriations Act”) appropriates the aggregate sum of Three Hundred Thirty-Eight Million, Eight Hundred Fifty-Five Thousand Dollars and no cents (\$338,855,000.00) for debt service expenses and amortization of authorized and unissued bonds for the 2019-2020 fiscal year. Section 1, Title III-34 of the 2019 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 June 19, 2019, that the State Funding Board allocate Three Hundred Twenty-Eight Million, Six Hundred Thousand Dollars and no cents (\$328,600,000.00) 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:

<b><u>TAX OR FEE</u></b>	<b><u>AMOUNT</u></b>	<b><u>BASIS OF ALLOCATION</u></b>
Franchise Tax	\$ 18,000,000.00	Equal monthly
Excise Tax	165,100,000.00	Equal monthly
Gasoline Tax	75,600,000.00	Equal monthly
Motor Vehicle Title Fees	2,700,000.00	Equal monthly

Further, he recommended a monthly allocation totaling Sixty-Seven Million, Two Hundred Thousand Dollars and no cents (\$67,200,000.00) 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, Seven Hundred Thirteen Thousand Dollars and no cents (\$3,713,000.00) and Other Revenues (College and Universities and State Veterans’ Homes) in the amount of Four Million, Six Hundred Seventy-Three Thousand Dollars and no cents (\$4,673,000.00), (ii) a Federal Highway Bridge Funds Match of Two Million, Four Hundred Thousand Dollars and no cents (\$2,400,000.00), and (iii) an adjusted balance at June 30, 2020 of negative Five Hundred Thirty-One Thousand Dollars and no cents (\$-531,000.00).

**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 2019-2020 fiscal year:

<b><u>SOURCE, TAX OR FEE</u></b>	<b><u>AMOUNT</u></b>	<b><u>BASIS OF ALLOCATION</u></b>
Franchise Tax	\$ 18,000,000.00	Equal monthly
Excise Tax	165,100,000.00	Equal monthly
Gasoline Tax	75,600,000.00	Equal monthly
Motor Vehicle Title Fees	2,700,000.00	Equal monthly
Sales Tax (estimated TCA allocation)	67,200,000.00	Monthly

2. This resolution shall be effective as of July 1, 2019, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2019.

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JUSTIN P. WILSON, SECRETARY  
TENNESSEE STATE FUNDING BOARD

**RESOLUTION ALLOCATING FUNDS TO DEFRAY 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 470, Public Acts of Tennessee, 2011 (the “2011 Act”), to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Seventy-Three Million Dollars (\$273,000,000) of which Seventy-Four Million Dollars (\$74,000,000) is allocated pursuant to Section 4(6) of the 2011 Act (the “2011 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 2011 DOT Bonds principal amount authorized has been issued.

Section 6, Item 1(a) of Chapter 405, Public Acts of Tennessee, 2019, (the “2019 Appropriations Act”) appropriates to the Funding Board the sum of Seventy-Four Million Dollars (\$74,000,000) to cancel a like amount of unissued 2011 DOT Bonds.

The Commissioner of Finance and Administration by memorandum dated June 19, 2019, recommended that the Funding Board proceed with canceling Seventy-Four Million Dollars (\$74,000,000) of the unissued 2011 DOT Bonds.

(2) 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 Four Million Dollars (\$4,000,000) of the 2013 DOT Bonds; none of the remaining Seventy-Seven Million Dollars (\$77,000,000) of the 2013 DOT Bonds principal amount authorized has been issued.

Section 6, Item 1(a) of the 2019 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 June 19, 2019, 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 2011 DOT Bonds and 2013 DOT Bonds have been financed in whole or in part with current funds and a total of Seventy-Nine Million Dollars (\$75,000,000) is no longer needed to fund such authorized projects.
2. Seventy-Four Million Dollars (\$74,000,000) of the unissued 2011 DOT Bonds are hereby canceled.
3. One Million Dollars (\$1,000,000) of the unissued 2013 DOT Bonds are hereby canceled.
4. This resolution shall be effective as of July 1, 2019, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2019.

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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 403, Public Acts of Tennessee, 2019, to be allocated as follows:

Item 1. One Hundred Twenty-Four Million Dollars and no cents (\$124,000,000.00) to the Department of Transportation to be expended for 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, and repair, replacement, or rehabilitation of bridges.

Further, the Funding Board is authorized to sell bonds in amounts not to exceed 2.5% of all 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 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, 2019, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2019.

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JUSTIN P. WILSON, SECRETARY  
TENNESSEE STATE FUNDING BOARD