



JASON E. MUMPOWER
Comptroller

TENNESSEE STATE FUNDING BOARD
JUNE 27, 2023
AGENDA

1. Call meeting to order
2. Consideration for approval of minutes from the April 26, 2023, meeting
3. Report from the Department of Economic and Community Development for approval of funding for the following FastTrack projects:
 - **American Water Heater Company – Johnson City (Washington County)**
FastTrack Job Training Assistance Grant \$ 411,000
4. Presentation and consideration for approval of the Tennessee Housing Development Agency’s Schedule of Financing for Fiscal Year 2023-2024
5. Consideration and adoption of written guidelines to comply with Public Chapter 300 that reserves a period for public comment
6. Annual review of Tennessee State Funding Board’s Debt Management Policy
7. Consideration for approval of updates to the Budget and Debt manuals and Guidelines for local governments
8. Consideration and acceptance of Tennessee Consolidated Retirement System (TCRS) affirmation of Standby Commercial Paper Purchase Agreement
9. Consideration for approval of a revised “Resolution Authorizing and Providing for the Issuance and Sale of General Obligation Bonds of the State of Tennessee”
10. Consideration for approval of a Resolution certifying Special Revenues as required by Section 9-9-104(b), Tennessee Code Annotated
11. Consideration for approval of a “Resolution Allocating from the Debt Service Fund to the Capital Projects Fund \$266,242.41 and Canceling Authorized Bonds”

12. Consideration for approval of a “Resolution Allocating From the Debt Service Fund to the Capital Projects Fund \$2,445.07 and Canceling Authorized Bonds”
13. Consideration for approval of a “Resolution Certifying and Authorizing the Allocation of Funds to the Sinking Fund for the 2023-2024 Fiscal Year”
14. Consideration for approval of a “Resolution Allocating Funds to Defray a Portion of the Cost of Highway Construction Projects and Canceling Authorized Bonds”
15. Consideration for approval of a “Resolution Authorizing the Issuance of General Obligation Bonds of the State of Tennessee” based on Chapter 421, Public Acts 2023 (the “2023 Bond Bill”)
16. Adjourn

TENNESSEE STATE FUNDING BOARD

April 26, 2023

The Tennessee State Funding Board (the “Board”) met on Wednesday, April 26, 2023, at 3:21 p.m., in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of State
Commissioner Jim Bryson, Department of Finance and Administration

The following members were absent:

The Honorable Bill Lee, Governor
The Honorable David H. Lillard, Jr., State Treasurer

Mr. Mumpower established that a quorum was present and called the meeting to order. Mr. Mumpower then presented the minutes from the meeting held on March 27, 2023, for consideration and approval. Mr. Bryson made a motion to approve the minutes, and Mr. Hargett seconded the motion. The motion was unanimously approved.

Mr. Mumpower then recognized Mr. Stuart McWhorter, Commissioner of the Tennessee Department of Economic and Community Development (“ECD”), to present FastTrack projects for consideration, and Mr. Allen Borden, Deputy Commissioner of Business, Community, and Rural Development, ECD, 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 March 27, 2023, Board meeting, the FastTrack balance was \$243,354,429.58. Since that time, \$1,618,249.93 in new appropriations had been added from interest earned from the month of February; \$228,151.50 in funds had been deobligated; \$3,000,000 in new grants or loans greater than \$750,000 had been approved, \$367,500.00 in new grants or loans less than \$750,000 had been approved ; and \$120,673.67 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$241,712,657.34 as of the date of the Report. Mr. VanderMeer reported that total commitments had been made in the amount of \$235,259,749.53, resulting in an uncommitted FastTrack balance of \$6,452,907.81. Mr. VanderMeer reported that the amount of proposed grants for projects to be considered at this meeting totaled \$9,249,653.00, and if these projects were approved, the uncommitted balance would be \$(2,796,745.19), for a total committed balance of \$244,509,402.53, which represented 101.2% of the FastTrack balance.

Mr. McWhorter then presented the following FastTrack projects:

- **6K Energy Tennessee, LLC – Jackson (Madison County)**
FastTrack Economic Development Grant \$ 1,750,000.00
- **Sinova Silicon LLC – Tiptonville (Lake County)**
FastTrack Infrastructure Development Grant \$ 6,499,653.00

- **Kordsa Inc. – Chattanooga (Hamilton County)**
FastTrack Economic Development Grant

\$ 1,000,000.00

Mr. Hargett made a motion to approve the projects, and Mr. Bryson seconded the motion. Mr. Mumpower then stated that Lake County at one time was the most economically distressed county in the state. Mr. Mumpower further stated that the Sinova Silicon LLC project had the potential to transform life in Lake County and requested that ECD talk about the opportunity that was identified while pursuing the project. Mr. McWhorter responded that he believed that Lake County was still the most distressed of the ninety-five counties in the state. Mr. McWhorter further responded that the product that will be produced in Lake County is essential to the battery ecosystem that is being built around the state. Mr. McWhorter then stated that the company had a great management team and were committed to the community. McWhorter further stated that he believed that Sinova Silicon LLC and this project would spur additional investment within the industrial park in the long run. Mr. Mumpower then asked if Mr. McWhorter thought there were potential workers available considering the 140 new jobs created by the project and if there was a chance for expansion with success. Mr. McWhorter replied that ECD was working very closely with the community, higher education, and the Department of Labor and Workforce Development to determine strategies that would attract, retain, and build skills for the talent that was needed for the development. Mr. McWhorter further replied that the good news was that they had time, and that part of the reason Sinova Silicon LLC chose the area was they believed there was an opportunity to accomplish those strategies.

Mr. Bryson then asked for an explanation of the unimelt plasma cathode process that was briefly mentioned in the 6K Energy Tennessee, LLC presentation. Mr. McWhorter responded that it was a unique process that was not globally recognized. Mr. McWhorter further responded that the cathode was a critical component of the battery. Mr. Borden then responded that the unimelt process was an entirely new technology for the manufacturing of cathodes. Mr. Borden further responded that there are many parts to the lithium-ion battery and the cathode was probably the most important part. Mr. Borden then stated that, according to the company, this process and technology would save a lot of money and would provide greater efficiency.

The Board member packets included letters and FastTrack checklists signed by Commissioner McWhorter, and incentive acceptance forms signed by company representatives. Mr. Mumpower inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Mr. McWhorter responded affirmatively. Mr. Mumpower then inquired if the checklists had been completed for each project, and Mr. McWhorter responded affirmatively. Mr. Mumpower then inquired if all the projects included accountability agreements which would provide protection for the state in the event the entity could not fulfill the agreement, and Mr. McWhorter responded affirmatively. Hearing no further discussion, Mr. Mumpower took the vote, and the motion was unanimously approved.

Mr. Mumpower then recognized Ms. Sandra Thompson, Director of the Division of State Government Finance and Assistant Secretary to the Board, to present for consideration and approval “A Resolution Authorizing and Providing for the Issuance and Sale of General Obligation Bonds of the State of Tennessee” (the “Resolution”) and delegation of authority to the Comptroller to sell and fix the details of the bonds. Mr. Mumpower noted that the resolution was related to the new Nashville stadium approved by the Metropolitan Council of Nashville and Davidson County. Ms. Thompson stated that the Resolution authorized the issuance of bonds in a principal amount not to exceed \$510,000,000 which included a \$500,000,000 grant to the Sports Authority of the Metropolitan Government of Nashville and Davidson County as well as approximately five to ten million in principal amount of bonds. The proceeds of these bonds would be used to redeem commercial paper for completed state projects that had been initially

financed with the state's commercial paper program. Ms. Thompson then stated that the Board's Debt Management Policy required her, prior to the sale, to review the details of the bond sale with the Board's staff.

Ms. Thompson further stated that the Resolution provided for the following information regarding the transaction:

- The bonds shall bear interest at the rates not to exceed 5.50% for tax-exempt bonds and 6.50% for taxable bonds.
- The bonds shall be issued pursuant to 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 proposed structure is 20-year level principal and may be issued Tax-Exempt or Taxable, with the preference as Tax-Exempt pending bond counsel review and approval;

Ms. Thompson then pointed out that:

- Bonds may be sold through competitive or negotiated sale, with the preferred method being competitive sale; and,
- A recommendation letter was provided to the Board by the Board's financial advisor, PFM Financial Advisors, LLC ("PFM"), which stated that it would be in the best interest of the Board to sell its bonds through a competitive sale;

Ms. Thompson then stated that the following documents were provided in conjunction with the proposed bond transaction and were referenced in the Resolution:

- Draft Preliminary Official Statement for the 2023 Series A bonds, updated from the state's last General Obligation ("GO") bond sale dated June 2021;
- A Form of the Notice of Sale from the most recent competitive sale in September 2019;
- A Form of Bond Purchase Agreement from the most recent negotiated sale in June 2021;
- Continuing Disclosure Undertaking in substantive form from the 2021 bond sale, to be executed solely to assist the bond purchaser/underwriter on the bonds in complying with the Securities and Exchange Commission Rule 15c2-12;

Ms. Thompson then stated that staff was requesting the approval of the resolution to authorize the issuance of the debt. Mr. Mumpower then made a motion to approve the resolution that authorized and provided for the issuance and sale of the state's general obligation bonds, and delegated the authority to the Comptroller to fix the details, and carry out the sale, of the bonds; and to sell the bonds through competitive sale based on the recommendation of PFM, the Board's financial advisor. Mr. Bryson seconded the motion, and it was unanimously approved.

After Mr. Mumpower requested other business and heard none, Mr. Bryson made a motion to adjourn the meeting, and Mr. Hargett seconded the motion. The motion was unanimously approved, and the meeting was adjourned.

Approved on this _____ day of _____ 2023.

Respectfully submitted,

Sandra Thompson
Assistant Secretary

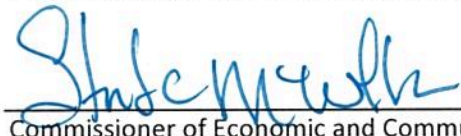
FastTrack Report to State Funding Board

6/23/2023

1. Previous FastTrack Balance, as of Last Report	241,712,657.34	
2. + New Appropriations:	43,685,264.04	
3. + Newly Deobligated Funds:	35,151.50	
4. + Funds Transferred to FastTrack:	0.00	
5. - Funds Transferred from FastTrack:	(2,380,000.00)	
6. - FastTrack Grants or Loans Approved Greater Than \$750,000:	(25,955,810.00)	
7. - FastTrack Grants or Loans Approved Less Than \$750,000:	(3,619,997.00)	
8. - FastTrack Administration	(362,477.33)	
9. Adjusted FastTrack Balance Available for Funding FastTrack Grants or Loans:	253,114,788.55	
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10. Total Amount of Commitments:	254,350,429.20	
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11. Uncommitted FastTrack:	(1,235,640.65)	
12. Percentage Committed:	100.5%	
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13. Amount of Proposed Grants or Loans:	411,000.00	
14. Uncommitted FastTrack Balance if Proposed Grants or Loans Approved:	(1,646,640.65)	
15. Percentage Committed:	100.7%	

See next page for explanations of the above questions.

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



Commissioner of Economic and Community Development

Date: 6-26-23



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

June 27, 2023

Comptroller Jason Mumpower
First Floor, State Capitol
Nashville, TN 37243

Dear Comptroller Mumpower:

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. American Water Heater Company – Johnson City (Washington County)

American Water Heater Company, a subsidiary of A. O. Smith Corporation (NYSE: AOS), a leader in water heating and water. A. O. Smith Corporation, with headquarters in Milwaukee, Wis., is a global leader applying innovative technology and energy-efficient solutions to products manufactured and marketed worldwide. The Company is one of the world's leading manufacturers of residential and commercial water heating equipment and boilers, as well as a manufacturer of water treatment products.

American Water Heater has long been at the forefront of the water heater industry, consistently delivering high-quality products that enhance the lives of millions of people across the country. The company aims to further invest in research and product development, drive technological advancements and promote sustainable living through energy-efficient solutions.

Originally, American Water Heater Company committed to create 26 net new jobs and make a \$17,582,600 capital investment within five (5) years.

American Water Heater Company has committed to create an additional 80 net new jobs for a total of 106 new jobs and make an additional \$17,772,800 capital investment for a total of \$35,355,400 capital investment within five (5) years. The company will have an average hourly wage of \$23.99 for the new positions.

FastTrack Job Training Assistance Program funds will be used to train the net new full-time employees for a total of \$424,000. There is a current FastTrack Job Training Assistance Program executed grant in the



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

amount of \$13,000. The current request is to increase the existing FastTrack Job Training Assistance Program funds \$411,000. **(\$411,000)**

Total FastTrack funds for this project - \$411,000

Sincerely,

A handwritten signature in blue ink that reads "Stuart McWhorter".

Stuart McWhorter

SM/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
INFRASTRUCTURE			
TRAINING*	American Water Heater Company	\$411 ,000	
ECONOMIC DEVELOPMENT			
TOTAL		\$411,000	

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

*ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity): American Water Heater Company

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

6-23-23

Date



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

April 21, 2023

INCENTIVE ACCEPTANCE FORM

This form serves as notice that American Water Heater Company intends, in good faith, to create 106 private sector jobs in Johnson City, Washington County and make a capital investment of \$35,355,400 in exchange for incentives that will be memorialized in a grant agreement between American Water Heater Company and the State of Tennessee. New jobs must be in addition to the company's baseline of 991 jobs at the project site in Tennessee.

ECD OFFER SUMMARY

FastTrack Job Training Grant:	\$ 424,000
Total ECD Commitment:	\$ 424,000

Please sign your name in the space below to signify American Water Heater Company's acceptance of ECD's offer set forth above and return it by July 20, 2023 to:

Tennessee Department of Economic and Community Development
Attn: Allyson Crystal
312 Rosa Parks Avenue, 27th Floor
Nashville, TN 37243
Allyson.Crystal@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. ECD reserves the right to recover funds for this project if grant contracts are not executed within one year of the date of signature below.

Signature: Micahle Burke
(Authorized Representative of Company)

Date: 5-17-2023

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2023-2024
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 2023-2024 is attached.

Total amount of bonds or notes reflected on Schedule
of Financing for Fiscal Year 2023-2024:

\$470,190,000

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2023-2024

ISSUE 2023-2 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
July 2023

Sources of Funds

Proceeds of the Issue	\$ 150,000,000
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Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 150,000,000
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 2023-3 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
October 2023

Sources of Funds

Proceeds of the Issue	\$ 200,190,000
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Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 200,190,000
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 2024-1 - RESIDENTIAL FINANCE BONDS –NEW VOLUME CAP
March 2024**

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)	\$ THDA contribution, or no more than 1% of
Capitalized Interest)	bond proceeds, or a combination thereof
Cost of Issuance)	

Single Family Bonds Sold in FY 2022-2023

\$ 160,000,000 Issue 2022-3 Residential Finance Program Bonds,
Dated October 27, 2022

\$140,000,000* Issue 2023-1 Residential Finance Program Bonds,
Dated April 25, 2023

TOTAL \$280,000,000

*\$20,000,000 of Issue 2023-1 was issued as taxable bonds

Multifamily Bonds Sold in FY 2022-2023 \$ 0

**Volume Cap Used by Local Issuers
For Multi-Family Housing in 2022** \$ 612,008,616 From THDA’s 2022 Volume Cap Allocation

**Volume Cap Available to Local Issuers
For Multi-Family Housing in 2023** \$ 423,080,500 From THDA’s 2023 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 avoid triggering the state's moral obligation for THDA bonds.
5. The volume cap assumption is that 50% 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 2022, volume cap carried forward from 2019 will be used. For bond issues in calendar year 2023, volume cap THDA carried forward from 2020 will be used.
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.

Proposed Guidelines for Public Comment at Meetings

1. Written notification to request to speak at a meeting must be sent to and received by email to Asst. Secretary, Sandi Thompson, at SGF@cot.tn.gov two business days in advance of the meeting. The email should include the proposed speaker's name, the agenda item(s) upon which the speaker wishes to comment, and whether the speaker's comments will be in favor of or opposed to the agenda item(s). Speakers will be selected on a first-come first-served basis.
2. The public comment period will be held at the beginning of the meeting once the meeting is called to order and a quorum has been established.
3. Speakers will be limited to two minutes per person per agenda item, with a maximum of two speakers in favor of and two speakers opposed to each agenda item.
4. Speakers must identify themselves at the beginning of their allotted time and stay on topic of the agenda item(s) that they have indicated their desire to speak on when addressing the board.
5. Speakers should conduct themselves in a respectful manner and will be asked to remove themselves if they engage in threatening or disruptive behavior.
6. The Board, in its discretion, may ask relevant questions of any speakers providing public comment. Such question period will not include the speaker's allotted time frame.
7. The Chairman may extend the allotted time frame or the number of speakers for a particular agenda item if the Chairman determines that the circumstances reasonably require it. If the Chairman extends the allotted time frame or the number of speakers, the Chairman shall ensure that an equal extension is granted to both those in favor of and opposed to any agenda item subject to an extension.

Tennessee State Funding Board



Debt Management Policy

Prepared by
Division of State Government 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 Division of State Government Finance (SGF) serves as staff to the Board. The Director of SGF serves 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 refund 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 to 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), of the TCA, 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. Short-term debt will be subsequently repaid with proceeds from the sale of long-term debt. Short-term debt may include:

- **Bond Anticipation Notes (“BANs”)** – BANs are short-term interest-bearing securities generally issued to finance a capital project during construction.
- **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. Provisions 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. Provisions 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 twenty (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 or capital appreciation bonds.

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 provisions should be structured to provide the maximum flexibility relative to cost. The State will avoid the sale of long-term non-callable bonds absent careful evaluation by SGF in consultation with the Financial Advisor 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 refund outstanding bonds by issuing new bonds. 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.

A. Refunding Opportunities

The bonds may be considered for refunding when:

Advance Refunding:

- The refunding results in present value savings of at least 4% per series of refunded bonds. Consideration will be given to escrow efficiency when reviewing refunding candidates.

Current Refunding:

- The refunding results in aggregate present value savings of at least 2% per series of refunded bonds; or
- The present value savings per series must be equal to or greater than twice the cost of issuance allocable to the refunding series.

Refunding for Other Purposes:

- 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
- The project is sold or no longer in service while still in its amortization period; or
- Restrictive covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.

After consultation with the Financial Advisor, the Comptroller may waive the foregoing refunding considerations given that the sale of refunding bonds will still accomplish cost savings to the public. Such waiver shall be reported in writing to the Board at its next meeting.

Present Value Savings Calculation

Unless otherwise agreed upon by the SGF 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 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 the discount rate is equal to the arbitrage yield of the series of bonds.. Percentage present value savings shall be expressed as a percentage of the par amount of such bonds to be refunded.

Escrow Efficiency

Escrow efficiency is determined by dividing the present value savings by the perfect escrow cost. The perfect escrow cost is the sum of the present value savings plus the absolute value of the negative arbitrage in the escrow.

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. 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.

D. 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”).

E. Cost of Issuance

Costs of issuance includes fees paid for professional services provided to the Board in the debt issuance process, including underwriting fees.

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 SGF 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;
- Whether the bonds include market sensitive refunding(s); and
- Tax status of the bond(s).

C. Private Placement

From time to time the Board may 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 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.

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

The Board through the SGF 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 CP programs or the use of derivatives.

The Board shall apply for ratings from at least two of the four credit rating agencies. The Board shall fully review the contract with the rating agencies 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 lines 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 SGF 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 SGF 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 Division of Local Government Finance (LGF) 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 SGF regarding Board matters.

B. Bond Counsel

Bond counsel shall be engaged through the SGF 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 SGF 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 CP.

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.

H. Verification Agent

The Verification Agent will be selected through a request for proposal process prior to the issuance of refunding bonds. The Verification Agent primarily verifies the cash flow sufficiency to the call date of the escrowed securities to pay the principal and interest due on the refunded bonds.

I. Escrow Bidding Agent

The Escrow Bidding Agent will be selected through a request for proposal process prior to the issuance of refunding bonds. With regards to structuring the refunding escrow with investment securities, the Escrow Bidding Agent will prepare bidding specifications, solicit bids for investment securities, review and evaluate responses to the bids, accept and award bids, and provide final certification as to completion of requirements.

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

In planning for the sale of bonds, the procedures outlined below will be followed:

- Prior to submitting a bond resolution for approval, the Director of the SGF (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 SGF), 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. Preparing for Bond Closing

In preparation for the bond closing, the procedures outlined below will be followed:

- The Director (with the assistance of staff in the SGF), 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 Board’s staff, with assistance from 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, if applicable.
- 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 LGF.

- 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 SGF) 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 SGF 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 refund 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 investments 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 Annual Comprehensive 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 31st of each year. The Board will timely disclose any failure to provide required annual financial information by January 31st. 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

1. After a public hearing on August 24, 2011, the Board adopted the Policy on September 8, 2011, effective September 8, 2011.
2. After a public hearing on September 16, 2013, the Board adopted the amended Policy on September 16, 2013, effective September 16, 2013.
3. After a public hearing on May 11, 2017, the Board adopted the amended Policy on May 11, 2017, effective May 11, 2017.
4. After a public hearing on March 2, 2018, the Board adopted the amended Policy on March 2, 2018, effective March 2, 2018.
5. After a public hearing on June 27, 2019, the Board adopted the amended Policy on June 27, 2019, effective June 27, 2019.
6. After a public hearing on July 22, 2021, the Board adopted the amended Policy on July 22, 2021, effective July 22, 2021.



Secretary
Tennessee State Funding Board

Annual Review

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

October 8, 2014

November 19, 2015

July 20, 2020

July 26, 2022

June 27, 2023

Division of Local Government Finance

Proposed revisions to the following manuals and guidelines:

1. Debt Manual for Local Governments
2. Budget Manual for Local Governments
3. SFB Guidelines for IDB Debt Reporting
4. SFB Guidelines for Balloon Indebtedness



TENNESSEE DEBT MANUAL FOR LOCAL GOVERNMENTS



Approved by the State Funding Board

June 2021

(will update to July 2023)

Jason E. Mumpower
Comptroller of the Treasury



**DIVISION OF
LOCAL GOVERNMENT FINANCE**

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Section 1 – Introduction

The purpose of this Tennessee Debt Manual for Local Governments (this “Manual”) is to provide general information to local government issuers in Tennessee relating to the issuance of debt. This manual also provides for specific forms and procedures, as is authorized by Tenn. Code Ann. § 4-3-305, that should be complied with by local government entities to which those forms and procedures are applicable.

Specifically, this Manual contains the following:

- Sections 2–5 provide general information relating to the issuance of local government debt in Tennessee.
- Section 6 provides uniform procedures for the issuance of notes by Tennessee’s counties, metropolitan governments, municipalities, and other local governments authorized to issue notes pursuant to Title 9, Chapter 21, of Tennessee Code Annotated.
- Section 7 provides refunding and state law reissuance guidance as well as brief descriptions of other reporting and approval requirements related to local government debt issuance.
- Section 8 provides a brief overview of federal oversight of local government debt.
- Section 9 provides local governments with an introduction to other resources related to best practices for the issuance of debt.

This Manual, as approved by the State Funding Board on June ~~27th~~, 202~~3~~⁴, is the ~~first~~second edition issued pursuant to Tenn. Code Ann. § 4-3-305.

This Manual provides general information and is not intended to offer specific financial or legal advice for local government issuers. If local government issuers have questions regarding matters discussed in this Manual or the application of this Manual to particular situations, local government issuers should contact the Division of Local Government Finance in the Comptroller’s Office and/or consult with the issuer’s legal and financial advisors.



Section 2 – Types of Debt

In general, debt refers to borrowing money and repaying it with interest over a period of time. In Tennessee, the debt of local government entities can be issued for a very short term, such as a few months, but certain types of debt of local government entities can have a term of up to 40 years.

Local government entities typically issue long-term debt to finance capital projects, such as schools, courthouses, safety facilities, and other public assets, that will last for many years and may be too expensive to pay for at the time of construction with current funds. By repaying the debt over a longer period of time, the cost of the project is spread over its life. Local government entities often issue short-term debt to finance equipment that has a shorter life when the cost of the equipment needs to be spread over multiple fiscal years.

If authorized at all, local government entities are generally allowed to borrow for the payment of operating expenses on a short-term basis, which is usually less than a year. Only in rare circumstances can local government entities borrow funds to finance or refinance the payment of operating expenses on a long-term basis.

Like comparable provisions in many other states, Article II, Section 29 of the Tennessee Constitution prohibits cities and counties from lending their credit for the benefit of private enterprises unless an election is first held and three-fourths of the votes cast in the election are in favor of the proposal. Tennessee courts have generally interpreted this provision so that it only applies when a debt is actually incurred and only when a city or county secures the debt with its taxing power, and not with other available revenues.

In some states, a local government entity may obtain a court ruling to validate the issuance of a debt obligation. Validation proceedings are rare in Tennessee, and almost all local government debt is issued in Tennessee without validation. If a debt obligation is not legally issued by certain local government entities, the Comptroller's Office is permitted to work with the local government entity to bring the obligation into conformity with applicable laws. Sometimes compliance is accomplished through a corrective action plan, but in some cases, it is necessary for the nonconforming obligation to be retired early. See Tenn. Code Ann. § 9-21-406.

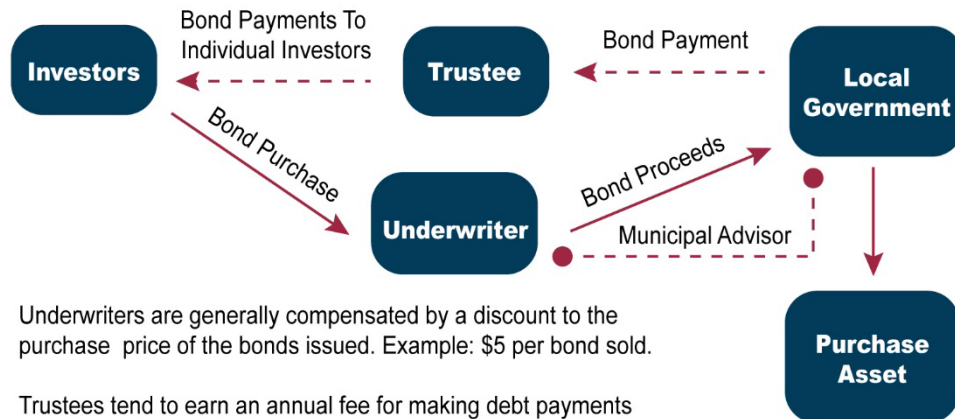
The most common types of debt instruments in Tennessee are the following:

a. Bonds

Bonds are typically long-term debt instruments, although many Tennessee statutes do not provide a clear distinction between the term of bonds and the term of other debt obligations. Like other debt obligations, a bond is the issuer’s promise to repay a set amount of money, plus periodic interest, on a specific date. When bonds are issued by cities, counties, metropolitan governments, and other local government entities that have strong credit, those bonds are often sold to the public. Typical features of municipal bonds sold to the public are as follows:

- Such bonds typically have serial maturity dates with a maturity in each year and a different interest rate for each maturity.
- Such bonds are typically sold in \$5,000 denominations so that they can be sold to many investors.
- Interest on such bonds is typically paid semi-annually.
- Such bonds often cannot be prepaid for a period of time (typically 10 years).

Flow of Funds in a Bond Transaction*



Underwriters are generally compensated by a discount to the purchase price of the bonds issued. Example: \$5 per bond sold.

Trustees tend to earn an annual fee for making debt payments to registered bond owners.

Municipal Advisors are hired by local governments to assist in the bond issuance process and are compensated per transaction.

*Please note that not all bond transactions in Tennessee involve a trustee or an underwriter.

b. Notes

Notes are typically short-term debt instruments. As with a bond, the issuer of a note promises to repay the amount of principal borrowed, plus interest, on a certain date.

Notes issued by local government issuers in Tennessee may take many forms. Types of notes issued by counties, cities, and metropolitan governments include the following:

- Bond anticipation notes, which are notes typically used to fund the construction phase of a capital project until long-term bonds are issued. Bond anticipation notes are sometimes issued in a commercial paper format.
- Grant anticipation notes, which are issued to fund initial spending that is later reimbursed through a grant.
- Tax and revenue anticipation notes, which are issued to provide operating funds until other taxes or other revenues are collected. Such notes generally must be repaid by fiscal-year end.
- Capital outlay notes, which are typically issued to finance the purchase of capital assets that have a shorter economic life, such as vehicles or equipment. Capital outlay notes may remain outstanding for up to 12 years.

Notes, as listed above, may be issued as internal loans pursuant to Tenn. Code Ann. § 9-21-408. The Division of Local Government Finance must approve the internal loans listed above (the process is described below). Electric department interdivisional loans authorized under Tenn. Code Ann. § 7-52-603, do not require Comptroller approval.

c. Financing Leases

After recent accounting rule changes, most leases will be shown as a liability and ~~(or possibly an asset)~~ on a local government entity's balance sheet. The distinction between financing leases ~~(or capital leases)~~ and operating leases (or true leases) has largely been eliminated for accounting purposes.

However, the notion of a financing lease, as opposed to an operating lease, is still a relevant concept under federal tax law. Under federal tax law, a financing lease typically provides for periodic rent payments that are effectively principal and interest payments, with the interest component specifically identified, and further provides for a bargain purchase option by the lessee at the end of the lease. Financing leases are often marketed to local governments in connection with the sale of equipment, such as energy savings equipment.

Certain types of local government entities in Tennessee are authorized to enter into financing leases. A local government entity should confirm with its legal counsel whether it has the legal authority to enter into a financing lease.

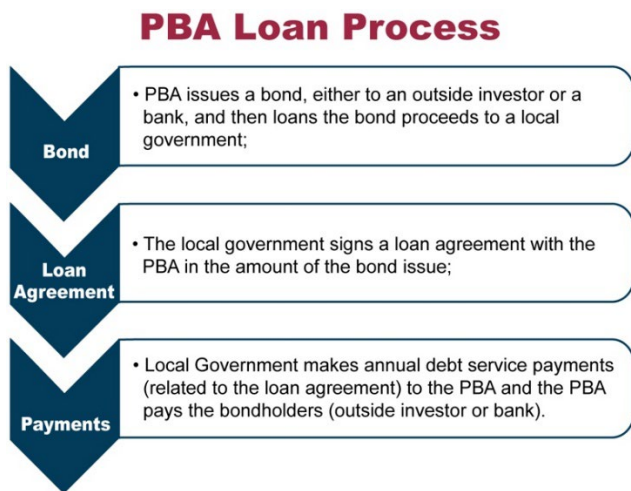
In addition, any financing leases entered into by certain local government entities ~~on or after January 1, 2022,~~ that are not classified as exempt under the "Uniformity in Local Government Lease Financing Act of 2021," must be reviewed and approved by the Comptroller's Office prior to approval by the local governing body. See Section 6h on page 30 for further detail.

d. Loan Agreements

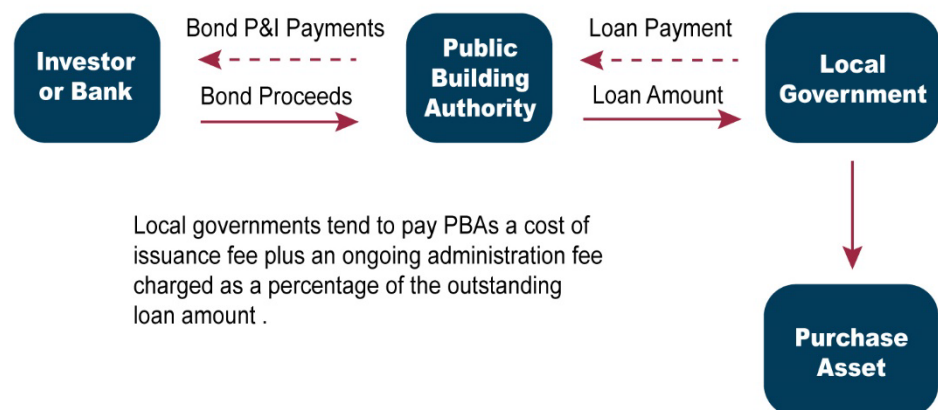
In Tennessee, certain local government entities are authorized to borrow funds pursuant to a loan agreement, in which case the issuance of a bond or note may not be required. As its name suggests, a loan agreement is an agreement under which an entity agrees to borrow funds from a lender.

In Tennessee, certain types of local government entities can borrow funds through a loan agreement with another type of local government entity known as a public building authority (also known as a PBA). PBAs were first authorized in state law in 1971 and were intended to help governments construct, operate, and maintain public buildings. PBAs are public corporations that are legally separate from the government or governments that create the PBA (a county or city (or both) is authorized to create a PBA).

PBAs issue debt to finance capital projects and typically loan the debt proceeds to another local government entity, such as a city or county. Although PBAs issue revenue debt, the loan agreement with a county or city may be a general obligation of the county or city. As a result, PBA debt often has the same credit quality as general obligation bonds issued by the local government borrower from the PBA.



Flow of Funds in a PBA Transaction



Section 3 – Types of Issuers

Tennessee law authorizes many types of local government entities to issue debt. A list of most local government entities that have the authority to issue debt in Tennessee follows:

Types of Issuers	Creation/Modification Authority	Statutory Authority to Issue Debt	Taxing Power	Types of Debt Issued
Cities	Title 6/Private Act	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 10	Yes	GO and Revenue
Counties	Title 5	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 11; Title 49, Chapter 3, Part 10	Yes	GO and Revenue
Metropolitan Governments	Title 7	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 11; Title 49, Chapter 3, Part 11	Yes	GO and Revenue
Health, Education and Housing Facility Board (HEHFB)	Title 48, Chapter 101, Part 3	TCA Section 48-101-308(10)	No	Revenue
Housing Authorities	Title 13, Chapter 20	Title 13, Chapter 20, Part 6 & 7	No (TIF)	Revenue
Special School Districts	Private Acts	Private Acts	Depends on Act	Depends on Act
Industrial Development Boards (IDB)	Title 7, Chapter 53, Part 2	Title 7, Chapter 53, Part 3	No	Revenue
Public Building Authorities (PBA)	Title 12, Chapter 10	Title 12, Chapter 10	No	Revenue
Hospitals	Various; Private Act; Title 7, Chapter 57	7-57-304(1) through 9-21; or if issued by City/County 9-21	No (Yes through city/county)	Revenue (GO with city/county)
Municipal Energy Authorities	7, Chapter 36	7, Chapter 36	No	Revenue
Utility Authorities (WWTA)	Title 68, Chapter 221, Part 6; Private Act, Public Act	Title 68, Chapter 221, Part 6	No	Revenue
Utility Districts	Title 7, Chapter 82, Part 2; Private Act, Public Act	Title 7, Chapter 82, Part 5	No	Revenue
Emergency Communication Districts	Title 7, Chapter 86, Part 1	TCA Section 7-86-114	No	Revenue
Local Government Authorities				
i. Airport Authorities	Title 42, Chapters 3, 4, and 5	Title 42, Chapter 3, 4, and 5 and some through 9-21-301	No	Revenue
ii. Convention Center Authorities	Title 7, Chapter 89	Title 7, Chapter 89	No	Revenue
iii. Port Authorities	Title 7, Chapter 87	Title 7, Chapter 87	No	Revenue
iv. Parking Authorities	Title 7, Chapter 65	Title 7, Chapter 65	No	Revenue
v. Sports Authorities	Title 7, Chapter 67	Title 7, Chapter 67	No	Revenue
Special Districts				
*Central Business Improvement District	Title 7, Chapter 84, Part 3	*See note below.	Through Municipality	GO and Revenue
Energy Acquisition Corp Act	Title 7, Chapter 39, Part 2	Title 7, Chapter 39, Part 3	No	Revenue
*Border Regional Retail Tourism Development District	Title 7, Chapter 40, Part 1	*See note below.	No	Revenue
*Regional Retail Tourism Development District Act	Title 7, Chapter 41, Part 1	*See note below.	No	Revenue
Soil and Water Conservation Districts	Title 43, Chapter 14, Part 2	43-14-218 through 2-21	No	Revenue
Human Resource Agency	Title 13, Chapter 26, Part 1	13-26-105 GANs only	No	Revenue
Tourism Development Authority	Title 7, Chapter 69, Part 1	TCA 7-69-111 through 9-21	No	Revenue
Flood Control Authorities	Title 64, Chapter 3	Title 64, Chapter 3	No	Revenue
Railroad Authorities	Title 64, Chapter 2	Title 64, Chapter 2	No	Revenue
River Basin Development Authorities	Title 64, Chapter 1	Various Parts	No	Revenue
TN River 4-County Port Authority Act	Title 64, Chapter 4	Title 64, Chapter 4	No	Revenue
TN Central Economic Authority	Title 64, Chapter 5	Title 64, Chapter 5	No	Revenue
TN Regional Megasite Authority Act	Title 64, Chapter 6	Title 7, Chapter 53	No	Revenue
Regional Transportation Authorities	Title 64, Chapter 8, Part 1	Title 64, Chapter 8, Part 1	No	Revenue
East TN Regional Agribusiness Authority	Title 64, Chapter 10	Title 64, Chapter 10	No	Revenue
Medical School Authority	Title 7, Chapter 90, Part 1	TCA 7-90-112	No	Revenue
*Special Assessment District	Title 7, Chapters 32 and 33	*See note below.	Special Assessment	GO and Revenue

*These districts are not legal entities which are authorized to directly issue debt, but they are areas in which a special assessment or increment tax revenue stream is designated to be available for payment of debt service by a local government entity. In most cases, such debt would be issued by another local government entity, such as a city, county, PBA, or industrial development board, depending on the relevant statutes.

The following is a brief description of some of the local government entities in Tennessee that have the legal authority to issue debt. Each of these entity types have the authority to issue debt, usually to finance (either directly or through a loan to a third party) capital projects constructed to further the purpose for which the entity was formed.

- a. **Cities**—Cities can be created in Tennessee under certain general statutes or by private act. Most cities have the power to impose property taxes, although not all cities in Tennessee do impose taxes. If a city forfeits its charter and it has debt outstanding, then the county is authorized to levy a special tax for the area of the city to repay the debt (Tenn. Code Ann. § 6-52-304).
- b. **Counties**—Counties are created by the Tennessee legislature and are subdivisions of the state.
- c. **Metropolitan Governments**—Tennessee statutes allow for the merger of the city and county government function into one metropolitan government if approved at a referendum.
- d. **Health Education Housing Facility Boards (HEHFB)**—HEHFBs are created by a city and/or county to facilitate the growth of health and educational facilities as well as housing.
- e. **Housing Authorities**—Housing authorities are created by cities and/or counties to facilitate the creation of housing in the area served. Housing authorities may also undertake tax increment financing (TIF) to assist redevelopment projects.
- f. **Special School Districts**—Special school districts are created by private act of the Tennessee legislature to provide education to residents of the area of incorporation.
- g. **Industrial Development Boards (IDB)**— IDBs are created by a city and/or county to provide for industrial development and other commercial and public projects in the area served by the IDB. IDBs may also undertake tax increment financing for certain economic development purposes.
- h. **Public Building Authorities (PBA)**—PBAs are created by cities and/or counties to finance, construct, and maintain public buildings. PBAs also have the legal authority to function as a lender to other local government entities.
- i. **Hospital Authorities**—Hospital authorities are created by private act or certain general statutes. Hospital authorities generally operate hospital facilities within their service area.
- j. **Municipal Energy Authorities**—Municipal energy authorities are created by cities and/or counties to operate, separate from the authorizing city or county, an electric system or other utility systems.

- k. **Water and Wastewater Treatment Utility Authorities**—~~Utility~~ Water and wastewater treatment authorities ~~authorities~~ are created by cities, ~~and/or~~ counties, ~~and/or~~ metropolitan governments or by private act to provide water ~~or~~; sewer, ~~or~~ gas services to rate payers in the service area.
- l. **Utility Districts**—Utility districts, which are common in Tennessee, are generally created by one or more counties with new utility districts being subject to approval by the ~~State's Utility Management Review~~ Tennessee Board of Utility Regulation (TBOUR). Utility districts generally provide water, sewer, gas, or fire protection services to the rate payers in their service area.
- m. **Emergency Communications Districts**—Emergency communications districts are created by cities and/or counties (and may be approved by voter referendum) to provide emergency communication services (911 calls and dispatch of emergency responders) in the authorized area.
- n. **Local Government Authorities**
 - i. **Airport Authorities**—Various types of airport authorities can be created by cities and/or counties to own and operate airport facilities.
 - ii. **Convention Center Authorities**—Convention center authorities can be created by a city and/or county to develop tourism, convention, and employment.
 - iii. **Port Authorities**—Port authorities can be created by cities and/or counties to develop ports and the related infrastructure to encourage commerce.
 - iv. **Parking Authorities**—Parking authorities can be created by cities and/or counties to finance, construct, and maintain parking structures and related infrastructure.
 - v. **Sports Authorities**—Sports authorities can be created by cities and/or counties to construct and maintain sports facilities.

Section 4 – Types of Security for Local Government Debt

a. General Obligation and Limited Tax Debt

In Tennessee, local government debt that is secured by a commitment to impose property taxes, to the extent necessary, to pay such debt is typically referred to as general obligation debt. Because counties, metropolitan governments, and cities are generally the only local government entities that have the legal authority to impose property taxes, essentially all general obligation debt issued by local government entities in Tennessee is issued by counties, metropolitan governments, and cities. General obligation debt is often described in Tennessee as being backed by the “full faith and credit” of the county, metropolitan government, or city that is issuing the debt.

General obligation debt is secured by the unlimited taxing power of the local government. Therefore, notwithstanding any local charter limitations to the contrary, the local government is required to impose a property tax in whatever amount is necessary to pay the debt. If the local government fails to do so, the holders of the debt can force the local government, through a court proceeding, to raise taxes in an amount sufficient to pay the debt service on the general obligation debt.

Certain special school districts in Tennessee, which have been created by private act, are allowed to collect property taxes imposed by the state legislature, but the amount of that property tax that can be imposed is typically limited. Debt issued by such special school districts is considered to be secured by a limited tax commitment because the property tax cannot be imposed in an unlimited amount if the taxes collected are not sufficient to pay debt payable from such taxes.

Another type of local government debt secured by limited taxes is special assessment debt. While commonly used in some states, special assessment debt has rarely been issued in Tennessee. However, as is noted in the Types of Issuers chart on page 6, a few statutes authorize the issuance of special assessment debt in Tennessee. Under those statutes, a special assessment, which is essentially a type of limited property tax, can be imposed on a specific district or area, and these assessments are typically collected by the city or county in which the special assessment district is created. The special assessments are sometimes used to pay for additional public services with the designated district or area, but such assessments can also be used to pay debt service on debt incurred to make capital improvements in the district or area. Because the amount of the special assessment is typically specified and limited, the debt payable from such special assessments is not typically a general obligation of the city or county and is more accurately characterized as a limited tax obligation.

b. Revenue Debt

Revenue debt is essentially all local government debt that is not payable from property taxes. Revenue debt can be generally subdivided into two categories—direct revenue debt and conduit revenue debt. Direct revenue debt is debt payable from revenues created by the local government entity that issues the debt. Conduit revenue debt is debt issued by a governmental entity on behalf of a third party and payable from payments made by a third party under a loan made by the local government entity that issues the debt.

The most common type of direct revenue debt in Tennessee is debt issued by local government entities that provide utilities and similar public services. Cities frequently issue debt payable from the revenues of their electric, water, sewer, stormwater, and gas systems. Utility districts and energy authorities are also frequent issuers of direct revenue debt in Tennessee. This type of direct revenue debt is usually issued under a bond resolution of the local government issuer under which the issuer pledges the revenues of the particular utility system (frequently after the payment of operating expenses) to the payment of the debt being issued to provide improvements to the utility system.

Another common type of direct revenue debt in Tennessee is tax increment debt. In Tennessee tax increment debt (which is also sometimes called tax increment financing or “TIF”) is generally issued by housing authorities, to promote redevelopment, or by industrial development boards, to promote economic development. Tax increment debt is generally payable from the incremental increase in property taxes from a base year (generally the year before the tax increment plan is approved by the local governments) and each tax year for which the calculation of the increment is made (less certain deductions required by state statutes).

The most common issuers of conduit revenue debt in Tennessee are industrial development boards; health, education, and housing facility boards; and public building authorities. Industrial development boards and health, education, and housing facility boards frequently are requested to issue bonds to finance projects for private parties, such as projects for charitable “501(c)(3)” organizations, low-income housing projects, small manufacturing projects, and solid waste projects, and to loan the proceeds of those bonds to the private party to finance the particular project. This financing method is typically used to permit the private party to realize the benefit of tax-exempt financing as is described in Section 8 of this manual. In this type of financing, the industrial development board or health, education, and housing facility board has no obligation to pay the issued bonds except from loan repayments by the private party, so the financing is non-recourse to the local government issuer.

As is discussed in Section 2d on page 5, another common type of conduit revenue debt in Tennessee is debt issued by public building authorities or PBAs. As with industrial development boards and health, education, and housing facility boards, debt issued by PBAs is generally only payable from the loan repayments made to the PBA by another party, which, in this case, would be the local government entity that borrows the proceeds of debt issued by the PBA. Therefore, the financing is typically non-recourse to the PBA. However, the underlying loan to the other local government entity may be a general obligation of the local government that borrows from the PBA, or such underlying loan may be payable only from specified revenues of that local government entity.

Section 5 – Types of Sales of Local Government Debt

There are generally two methods of sale of local government debt—competitive sale and negotiated sale. With a competitive sale, parties that are interested in purchasing a local government entity’s debt compete to offer the lowest interest rate for the debt. With a negotiated sale, a local government entity negotiates with a single purchaser in an effort to obtain the most favorable terms. General obligation debt and highly-rated direct revenue debt is usually well suited for competitive sales, while other types of debt are better suited for negotiated sales.

When a local government entity sells debt using a competitive sale method, the local government entity will typically publicly advertise the sale through a notice of sale and request bidders to submit bids to purchase the debt being sold by a specified time. The notice of sale will specify the parameters for the sale, such as the maturities, maximum principal amount, and maximum interest rate. Once the bids are submitted, the local government will then award the bonds to the bidder that provides the lowest interest rate. In most cases, the bidders for the bonds are typically underwriters who resell the bonds to their customers.

For capital outlay notes (see Section 6c on page 19) issued by cities and counties that do not exceed \$5 million in principal, a modified form of competitive sale, known as the informal bid process, can be used. Under this alternative, a city or county can seek quotes from financial institutions to purchase a capital outlay note instead of selling the capital outlay note through a publicly advertised competitive sale.

Negotiated sales generally take two forms—public underwritings and private placements. With a public underwriting, a local government entity selects an underwriter and then negotiates the terms for the sale of the debt of the local government entity, such as interest rates, call provisions, and purchase price, among other things, with the underwriter. The local government entity and the underwriter enter into a bond purchase agreement or similar agreement to memorialize these terms and to provide for the sale of the debt. The underwriter will then typically reoffer the debt, which is usually in the form of bonds, to its customers.

With a private placement (also sometimes called a direct placement), the purchaser of the debt of the local government entity is typically a bank or other financial institution, and the debt of the local government entity is not reoffered to the public but is held by the purchaser of the debt as a loan or investment. In some cases, the purchaser of the debt may be required to hold the debt until it matures or may be subject to other restrictions regarding the transfer of the debt. The terms of the debt are negotiated directly by the local government entity and the purchaser of the debt.

The permitted method of sale for local government debt will generally be established by the statutes that authorize the issuance of the debt. Most general obligation debt in Tennessee is required to be sold by public competitive sale, and the State of Tennessee through its State Funding Board prefers to issue its general obligation debt for larger capital projects by competitive sale.



Section 6 – Comptroller Oversight of Short-Term Obligations

a. Short-Term Obligations Requiring Approval by the Comptroller of the Treasury

Types of Obligations	Statute
Bond Anticipation Notes	T.C.A. §§ 9-21-501 et seq.
Capital Outlay Notes	T.C.A. §§ 9-21-601 et seq.
Financing Leases	T.C.A. §§ 9-24-101 et seq.
Grant Anticipation Notes	T.C.A. §§ 9-21-701 et seq.
Revenue Anticipation Notes – Health Care	T.C.A. §§ 9-21-1101 et seq.
Revenue Anticipation Notes – Utilities, Other	T.C.A. §§ 7-34-111; 7-36-113; 7-82-501
Tax and Revenue Anticipation Notes	T.C.A. §§ 9-21-801 et seq.

i. General Requirements for Notes

Limits on Indebtedness

Except for Tax Anticipation Notes, there is no limit on indebtedness imposed on local governments in the “Local Government Public Obligations Act of 1986” (the “Act”).

Local Government Powers

Local governments have the following powers under the Act: (a) contract debts in order to make grants, donations, reimbursements or loans to one (1) or more local governments, local government instrumentalities, or utility districts for the construction of any public works project; (b) Borrow money for the construction of any public works project; or (c) Issue bonds or notes to finance such construction, grant, donation, reimbursement or loan for the construction of any public works project.

In addition, local governments may pledge the full faith, credit, and unlimited taxing power of the local government as to all taxable property in the local government or a portion of the local government, if applicable, to the punctual payment of the principal of and interest on the bonds or notes issued to finance any public works project, except bonds or notes and the interest thereon payable exclusively from revenues of a public works project.

Local governments may assess, levy, and collect ad valorem taxes on all taxable property within the local government or a portion of the local government, if applicable, sufficient to pay the principal of and interest on the bonds or notes issued to finance any public works project, except bonds or notes and the interest thereon payable exclusively from revenues of a public works project.

Tenn. Code Ann. § 9-21-107

Tax-Exemption

Any bonds or notes issued by a local government pursuant to the provisions of the Act and the income therefrom shall be exempt from all state, county and municipal taxation except for inheritance, transfer and estate taxes, and except as otherwise provided in the Tennessee Code Annotated.

Tenn. Code Ann. § 9-21-117

ii. Remedies for Noteholders

Any holder of notes issued pursuant to the Act has the right, in addition to all other rights:

By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce such holder's rights against the local government, the governing body of the local government and any officer, agent, or employee of the local government, including, but not limited to, the right to require the local government, the governing body and any proper officer, agent or employee of the local government to assess, levy and collect taxes, and to fix and collect fees, rents, tolls, or other charges adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the local government, the governing body of the local government and any officer, agent or employee of the local government to carry out any other covenants and agreements, and to perform its and their duties under this chapter. No holder or holders of notes payable exclusively from the revenues of a public works project shall ever have the right to compel the levying and collection of taxes to pay such notes and the interest thereon.

By action or suit in equity to enjoin any acts or things which may be unlawful or a violation of the rights of such holder or holders of notes.

Tenn. Code Ann. § 9-21-407

iii. Public Works Projects Defined by Tenn. Code Ann. § 9-21-105

The following list is a summary and grouping of all public works projects authorized by Tenn. Code Ann. § 9-21-105:

GENERAL GOVERNMENT

- City and town halls
- Convention and event centers
- Courthouses
- Equipment (including vehicles, technology equipment, and related software) used for local government purposes
- Facilities for the indigent
- Fire alarm systems
- Local government stables or garages
- Public buildings
- Plazas
- Parking facilities
- Memorials
- Voting machines

PUBLIC SAFETY

- Ambulances
- Corrective, detention, and penal facilities, including, but not limited to, jails and transition centers
- Fire department equipment and buildings
- Law enforcement and emergency services equipment

HEALTH

- Dispensaries
- Facilities for persons with disabilities

- Health centers and clinics, including medical and mental health centers and clinics
- Hospitals
- Nursing homes

PUBLIC RECREATION

- Acquisitions of land for the purpose of providing or preserving open land
- Auditoriums
- Expositions
- Fairgrounds and fairground facilities
- Greenways
- Museums
- Parks
- Playgrounds
- Public art

- Preserves
- Recreation centers and facilities
- Stadiums
- Swimming pools
- Zoos

PUBLIC WORKS

- Facilities for the storage and maintenance of any items of equipment that constitute public works projects
- Flood control
- Levees
- Reclamation of land

SOLID WASTE

- Garbage collection and disposal systems
- Incinerators

EDUCATION

- Libraries
- Schools
- Transportation equipment for schools
- Technology equipment and related software

TRANSPORTATION

- Airports
- Alleys
- Bridges
- Curbs
- Harbor and riverfront improvements
- Highways
- Highway and street equipment
- Parkways
- Port facilities
- Railroads, including railway beltlines and switches
- Rights-of-way
- River and navigation improvements and roads
- Ship canals
- Sidewalks
- Streets
- Tunnels
- Urban transit facilities
- Wharves

UTILITIES

- Culverts
- Drainage systems, including storm water sewers and drains

- Electric plants and systems
- Gas and natural gas systems and storage facilities
- Heat plants and systems
- Reservoirs
- Sewers
- Sewage and wastewater systems, including, but not limited to, collection, drainage, treatment, and disposal systems
- Thermal transfer generating plants and/or distribution systems
- Viaducts
- Water treatment distribution and storage systems

ECONOMIC DEVELOPMENT

Hotels and supporting or incidental facilities built by local governments which are built adjacent to, and as a supporting facility of, civic or convention centers located in municipalities which have created a central business improvement district under the provisions of the “Central Business Improvement District Act of 1971,” compiled in Tenn. Code Ann. Title 7, Chapter 84

Improvements made pursuant to a plan of improvement for a central business improvement district created pursuant to the “Central Business Improvement District Act of 1971,” compiled in Tenn. Code Ann. Title 7, Chapter 84

- Markets
- Business parks
- Industrial parks
- Urban renewal projects

b. Bond Anticipation Notes

The authority for the issuance of Bond Anticipation Notes (BANs) is found in Title 9, Chapter 21, Part 5 of the Tennessee Code Annotated. BANs are issued for the express purpose of providing funds in anticipation of the sale of bonds. Pursuant to Tenn. Code Ann. § 9-21-505, BANs must first be approved by the Comptroller’s Office. See the template BAN resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Note Resolutions” tab.

✓ STEP ONE – Submission Requirements for Approval – BAN

Local governments seeking approval to issue BANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the BANs shall be from and signed by the local government’s Chief Executive Officer or designee.

2. Adopted Initial Bond Resolution

A certified copy of the signed and adopted initial bond resolution authorizing the issuance of general obligation bonds revenue bonds.

3. Statement Regarding Publication of Initial Bond Resolution and Protest Period

- For general obligation bonds, certification of compliance with Tenn. Code Ann. § 9-21-206 that (a) the initial bond resolution authorizing the issuance of general obligation bonds has been published in a newspaper of general circulation; and (b) no protest was made against the initial resolution for general obligation bonds during the 20-day protest period.
- For revenue bonds, certification of compliance with Tenn. Code Ann. § 9-21-304 that the initial bond resolution authorizing the issuance of revenue bonds has been published in full once in a newspaper of general circulation.

4. Adopted Resolution

The resolution shall authorize the issuance of BANs and shall be certified. The resolution should include the following key elements:

- Clear description of public works project(s) that meet(s) the definition in Tenn. Code Ann. § 9-21-105, Title 9, Ch 11 or Title 49, Ch 3, Pt 10;
- Not to exceed dollar amount;
- Name of the note;
- Life and term of the note does not exceed 2 years;
 - Entity may request subsequent approval to extend BANs for two additional 2-year periods – Tenn. Code Ann. § 9-21-505.
- Planned amortization of the notes that meets statutory requirements;
 - After the first 2-year period, a minimum of 1/20 of the original principal shall be retired annually.
 - The entity may request subsequent waiver of the principal retirement when requesting BAN Extension – Tenn. Code Ann. § 9-21-505.
- Disclosure of any recurring fees included in the interest rate;
- Not to exceed interest rate that is less than the state usury maximum (Tenn. Code Ann. § 47-14-103);
- If it is an internal loan, and the entity is lending restricted monies (e.g., money from the water and sewer fund), then the entity is paying interest – Tenn. Code Ann. § 9-21-408.
 - Interest should be the highest rate currently being earned on other investments, excluding pension investments.
 - If there are no applicable investments, the interest rate is the amount that could be earned for deposits in the Local Government Investment Pool administered by the Tennessee State Treasurer.
- Method of sale – competitive or negotiated;
- Security – Tenn. Code Ann. § 9-21-504 – general obligation or revenue;
- Date of approval by governing body; and
- Relevant signatures and certification.

5. Statement of Monthly Cash Flow Analysis

This requirement only applies for interfund BANs. A monthly cash flow analysis is required for the lending fund(s). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the “Tools” tab.

✓ **STEP TWO – Approval by the Comptroller's Office – BAN**

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the needed information is received.
2. Once the review process is complete, the local government will receive a letter via e-mail from the ~~Director of the~~ Division of Local Government Finance indicating approval or non-approval.
3. The approval is valid for six months after the date of the letter. If the BANs are not issued within that time, a new note resolution must be passed and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the BANs.

✓ **STEP THREE – Submission Requirements after Approval – BAN**

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the BANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office using the online application located at tncot.cc/debt-report ~~LGF@cot.tn.gov~~. An additional Debt Report will need to be filed once the long-term bonds are issued.

2. Annual Budget Approval

Within 15 days of adoption, the local government's annual budget, including supporting schedules, shall be submitted to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov.

c. Capital Outlay Notes

Capital Outlay Notes require the approval of the Comptroller's Office. The authority for issuance of Capital Outlay Notes (CONs) is found in Tenn. Code Ann. Title 9 Chapter 21 Part 6. See the template CON resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury's website at tncot.cc/debt under the “Note Resolutions” tab.

✓ STEP ONE – Submission Requirements for Approval – CON

Local governments seeking approval to issue CONs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the CONs shall be from and signed by the local government's Chief Executive Officer or designee.

The request must state that the proposed sale is feasible and in the best interest of the local government and that the entity is able to repay the proposed indebtedness together with all other obligations of the local government.

2. Draft Resolution

The ~~draft resolution~~, ~~or~~ signed and certified authorizing resolution, and draft note. The resolution should include the following key elements:

- Clearly described municipal project(s) that meet(s) the definition in Tenn. Code Ann. § 9-21-105.
- Not to exceed dollar amount.
- Economic life of the project(s) that is reasonable based upon the nature of the project.
- Method of sale (competitive sale, negotiated, ~~or~~ informal bid process, or interfund). The proposed type of sale must comply with Tenn. Code Ann. § 9-21-607:
 - Up to 3 years & any amount = Competitive public sale or private negotiated sale.
 - >3 and up to 12 years & up to \$5,000,000 = Competitive (can be local or informal bid.
 - >3 and up to 12 years & >\$5,000,000 = Competitive public sale only.
 - Land acquisition notes can be sold to the seller of land in a private negotiated sale in addition to other permitted methods of sale.
 - Interfund loans are not subject to the method of sale requirements in Tenn. Code Ann. § 9-21-607.
- Name of the note.
- Life/term of the note does not exceed:
 - Economic life of the project(s) or 12 years, whichever is less – Tenn. Code Ann. § 9-21-602(a).
 - Economic life of the project(s) or 20 years, whichever is less, for interfund CON lent from proceeds from the sale of a Tennessee private act hospital – T.C.A. § 9-21-604(b).
 - 10 years for a land purchase (Tenn. Code Ann. § 9-21-607).
 - 12 years for interfund loans (Tenn. Code Ann. § 9-21-408 & Title 9, Chapter 21, Part 6)

- Planned repayment begins after the first fiscal year the notes are issued and are repaid, either by maturity or by mandatory redemption. The amortization of the notes meets statutory requirements of Tenn. Code Ann. § 9-21-604.
 - Level debt service payments (specifically, principal and interest does not exceed any prior year by more than 5%).
 - An equal amount of principal in each fiscal year.
 - As otherwise approved by the Comptroller’s Office.
 - Interfund CON from Tennessee Private Act Hospital sale proceeds— not less than 1/20 of the original principal amount of the notes.
 - The Comptroller’s Office may waive periodic retirement requirement.
- Disclosure of any recurring fees included in the interest rate.
- Not to exceed interest rate that is less than the state usury maximum (Tenn. Code Ann. § 47-14-103).

- If this is an internal loan and the entity is lending restricted monies (e.g., money from the water and sewer fund), the entity is paying interest – Tenn. Code Ann. § 9-21-408).
 - Interest should be the highest rate currently being earned on other investments, excluding pension investments.
 - If there are no applicable investments, the interest rate is the amount that could be earned for deposits in the Local Government Investment Pool administered by the Tennessee State Treasurer.
 - The fixed interest rate may be set on the day of issuance or locked in up to 60 days prior to the day of issuance, but not prior to the decision by the local government to execute the project.
- Security – Tenn. Code Ann. § 9-21-603
 - Notes shall be direct general obligations of entity; taxing power pledged.
 - If for an income-producing public works (e.g., water utility fund), a secondary security/pledge payable from revenues of the public works may be added.
- Placeholder for the date of approval by governing body.
- Placeholders for relevant signatures and certification.
- Interfund CON from the Tennessee Private Act Hospital sale proceeds – the authorizing resolution may provide that the notes must be subject to redemption prior to maturity at the option of the local government.

- 3. Informal Bid Attachment
 If seeking informal bid approval, the CON must be for \$5 million or less. Tenn. Code Ann. § 9-21-609. See the sample informal bid form in the Appendix.

- 4. Statement of Monthly Cash Flow Analysis
 This requirement only applies for interfund CONs. A monthly cash flow analysis is required for the lending fund(s) to demonstrate the lending of fund will not adversely impact the cash flow/working capital needs of the lending fund. A monthly cash flow

analysis Microsoft Excel template is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the “Tools” tab.

5. Copy of Proposed Disclosure Statement, if any
6. Schedule of Estimated Annual Principal and Interest Requirements
7. Detailed Estimated Costs of Issuance
This must include all amounts required to be reported under Tenn. Code Ann. § 9-21-134, if applicable.
8. List of Projects to be Financed
Please include a detailed list of all proposed projects, including the estimated life of those projects. A weighted average life calculator is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the “Tools” tab.

✓ STEP TWO – Approval by the Comptroller's Office – CON

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the needed information is received.
2. Approval can only be granted if the issuance of the CONs, as compared to the issuance of GO bonds, is in the best interest of the local government pursuant to Tenn. Code Ann. § 9-21-601(b)(4).
 - When making this determination, the Comptroller's Office will consider whether the life of the project materially exceeds the life of the CON.
 - For example, if school construction is being financed for 12 years, and it is apparent that the entity will not be able to repay the CON within that period and will need to refund the CON in order to extend maturity to a later date, then the request cannot be approved.
3. Once the review process is complete, your local government will receive a letter via e-mail from the ~~Director of the~~ Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid for six months after the date of the letter. If the CONs are not issued within that time, a new draft note resolution must be prepared and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the CONs.

✓ STEP THREE – Submission Requirements after Approval – CON

1. Debt Report
Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the

issuance of the CONs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office [using the online application](#) at LGF@cot.tn.gov tncot.cc/debt-report.

2. Annual Budget Approval

Within 15 days of adoption, the local government's annual budget, including supporting schedules, shall be submitted to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov.

d. Grant Anticipation Notes

Grant Anticipation Notes require the approval of the Comptroller's Office. The authority for issuance of Grant Anticipation Notes (GANs) is found in Tenn. Code Ann. Title 9, Chapter 21, Part 7. See the template GAN resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury's website at tncot.cc/debt under the "Note Resolutions" tab.

A local government may issue capital outlay notes or bond anticipation notes for the matching portion of public works grants, as well as grant anticipation notes issued under Tenn. Code Ann. Title 9 Chapter 21 Part 7, provided that the proceeds from the sale of any such capital outlay notes or bond anticipation notes shall not be applied to the payment of such grant anticipation notes.

✓ STEP ONE – Submission Requirements for Approval – GAN

Local governments seeking approval to issue GANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the GANs shall be from and signed by the local government's Chief Executive Officer or designee.

2. Adopted Resolution

The resolution shall authorize the issuance of GANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Not to exceed dollar amount.
- Name of the note.
- Life/term of the note does not exceed 3 years from the date of issuance, unless requesting initial Comptroller approval to extend – Tenn. Code Ann. § 9-21-705.
- Disclosure of any recurring fees included in the interest rate.
- Not to exceed interest rate that is less than the state usury maximum (Tenn. Code Ann. § 47-14-103).

- Security – Tenn. Code Ann. § 9-21-704.
 - Notes shall not be direct general obligations of entity.
 - Pledge to repay principal shall be solely from a state or federal grant contract/agreement.
 - Pledge for interest payment may be from ad valorem taxes.
 - Date of approval by governing body.
 - Relevant signatures and certification.
 - If this is an internal loan and the entity is lending restricted monies (e.g., money from the water and sewer fund), the entity is paying interest – Tenn. Code Ann. § 9-21-408.
 - Interest should be the highest rate currently being earned on other investments, excluding pension investments.
 - If there are no applicable investments, the interest rate is the amount that could be earned for deposits in the Local Government Investment Pool administered by the Tennessee State Treasurer.
3. Copy of Signed Contract and Notice to Proceed with Project Letter
The fully executed contract or agreement between the state or federal agency and the local government pledging the funds for the public works project and documentation indicating that a notice to proceed with the project or the equivalent has been received.
 4. Statement of Monthly Cash Flow Analysis
This requirement only applies for interfund GANs. A monthly cash flow analysis is required for the lending fund(s). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury’s website at tncot.cc/debt under the “Tools” tab.

✓ STEP TWO – Approval by the Comptroller’s Office – GAN

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller’s Office. If the submission is incomplete, the 10-day review period will not begin until the needed information is received.
2. Once the review process is complete, the local government will receive a letter via e-mail from ~~the Director of~~ the Division of Local Government Finance indicating approval or non-approval.
3. The approval is valid for six months after the date of the letter. If the GANs are not issued within that time, a new note resolution must be passed and submitted to the Comptroller’s Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the GANs.

✓ STEP THREE – Submission Requirements after Approval – GAN

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the GANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office using the online application located at LGF@cot.tn.gov tncot.cc/debt-report.

2. Annual Budget Approval

Within 15 days of adoption, the local government's annual budget, including supporting schedules, shall be submitted to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov.

e. Revenue Anticipation Notes

Pursuant to Tenn. Code Ann. §§ 7-34-111, 7-36-113, and 7-82-501, cities and counties as well as energy authorities and utility districts can issue certain utility Revenue Anticipation Notes (RANs), which require the approval of the Comptroller's Office.

✓ STEP ONE – Submission Requirements for Approval – RAN

Local governments seeking approval to issue RANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the RANs shall be from and signed by the local government's Chief Executive Officer or designee.

2. Adopted Resolution

The resolution shall authorize the issuance of RANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Name of the note.
- Not to exceed dollar amount.
- The next two requirements only apply to RANs issued for construction, etc. of public works systems pursuant to Tenn. Code Ann. § 7-34-111 (a)-(b):
 - Economic life of the project(s) that is reasonable based upon the nature of the project.
 - Life/term of the note does not exceed economic life of the project(s) and does not exceed 5-years.
- Planned amortization of the notes that meets statutory requirements.
 - Maximum 12 months for gas and/or power purchases – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), and 7-82-501. Note: The 12-month period does not have to mirror the entity's fiscal year.
 - Maximum 5 years for construction-related – Tenn. Code Ann. § 7-34-111(a)-(b).

- Not to exceed interest rate that is less than the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Date of approval by the governing body.
- Relevant signatures and certification.

3. Copy of Budget

For RANs issued to fund gas and/or power purchases, budget showing amount of budgeted electric power or gas purchases that will be used to calculate the 60% limitation – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), and 7-82-501.

✓ **STEP TWO – Approval by the Comptroller’s Office – RAN**

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller’s Office. If the submission is incomplete, the 10-day review period will not begin until the needed information is received.
2. RANs issued for gas/power purchases must comply with the following requirements:
 - The amount requested for approval is 60% or less than the total budgeted for the purchase of gas or electricity – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), and 7-82-501.
 - The entity has a positive ending net position for the last fiscal year audit and a positive change in net position in one of the last three fiscal years.
 - Revenue projections in the budget appear realistic in that the RANs may be retired within 12-months after issuance.
3. Once the review process is complete, the local government will receive a letter via e-mail from ~~the Director of the~~ Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid for six months after the date of the letter. If the RANs are not issued within that time, a new note resolution must be passed and submitted to the Comptroller’s Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the RANs.

✓ **STEP THREE – Submission Requirements after Approval – RAN**

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the RANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller’s Office using the online application located at LGF@cot.tn.gov tncot.cc/debt-report.

2. Annual Budget Approval

Within 15 days of adoption, the local government’s annual budget, including supporting schedules, shall be submitted to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov.

f. Tax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANs) require the approval of the Comptroller’s Office. The authority for issuance of TRANs is found in Tenn. Code Ann. Title 9, Chapter 21, Part 8. See the template TRAN resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Note Resolutions” tab.

✓ STEP ONE – Submission Requirements for Approval – TRAN

Local governments seeking approval to issue TRANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the TRANs shall be from and signed by the local government’s Chief Executive Officer or designee. It must identify the amount of the TRAN and whether it is an internal or external loan.

2. Adopted Resolution

The resolution shall authorize the issuance of TRANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Approved and certified resolution and draft note.
- Not to exceed dollar amount.
- Borrowing Fund.
- Life/term of the note does not exceed beyond appropriation fiscal year.
- Name of the note.
- Not to exceed interest rate that is less than the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Date of approval by the governing body.
- Relevant signatures and certification.

3. Statement of Monthly Cash Flow Analysis for the Borrowing Fund

A monthly cash flow analysis is required for the borrowing fund (the fund anticipating the future tax or other revenue). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Tools” tab.

4. Statement of Monthly Cash Flow Analysis for the Lending Fund (for Internal Loans)

This requirement only applies for interfund TRANs. A monthly cash flow analysis is required for the lending fund(s). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the “Tools” tab.

✓ **STEP TWO – Approval by the Comptroller's Office – TRAN**

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the needed information is received.
2. Approval can only be granted if the following requirements are met:
 - The amount requested for approval is 60% or less than the total budgeted appropriations for the fund – Tenn. Code Ann. § 9-21-801.
 - Any prior year TRANs have been repaid and the entity sent proof to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov.
 - The cash flow for the borrowing fund: (1) appears reasonable/realistic; (2) demonstrates need; and (3) demonstrates ability to repay.
3. Once the review process is complete, the local government will receive a letter via e-mail from ~~the Director of~~ the Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid through the end of the fiscal year identified in our approval letter for six months after the date of the letter. ~~If the TRANs are not issued within that time, a new note resolution must be passed and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the TRANs.~~

✓ **STEP THREE – Submission Requirements after Approval – TRAN**

1. Debt Report
Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the TRANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office using the online application located at LGF@cot.tn.gov tncot.cc/debt-report.
2. Annual Budget Approval
Within 15 days of adoption, the local government's annual budget, including supporting schedules, shall be submitted to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov.
3. Repayment Requirement

The local government must repay the TRANs no later than June 30 of the fiscal year of borrowing and provide the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov with documentation within 15 days of, but not later than June 30 of the fiscal year of, borrowing.

g. Summary Grid of Notes Authorized Under Tenn. Code Ann. Title 9, Chapter 21

	Bond Anticipation Notes	Capital Outlay Notes	Grant Anticipation Notes	Tax Anticipation Notes
Purpose	Issued in anticipation of bond proceeds for all purposes which bonds can be legally issued and authorized for by a local government for public works projects and purposes authorized by Title 9, Chap. 11 and Title 49, Chap. 3, Part 10	For all purposes which bonds can be legally issued and authorized for by a local government for public works projects and for property valuation, tax assessment, and tax equalization programs	Notes issued in anticipation of monies received pursuant to a contract between the state or federal agency and the local government for public work projects	Tax anticipation notes are for the purpose of meeting appropriations made for the current fiscal year in anticipation of the collection of taxes and revenues.
Resolution	Yes (Adopted)	Yes (Draft or Authorizing)	Yes (Adopted)	Yes (Adopted)
Initial Resolution Published	Yes	No, except for certain refundings under TCA 9-21-606	NO	NO
Report by Director	Approval	Approval	Approval	Approval
Maximum Amount	No Maximum	No Maximum	No Maximum	60% of adopted appropriations for the current fiscal year
PAR	99%	99%	100% and accrued interest	100% and accrued interest
Serial	Yes	Yes	Yes	Yes
Sale Type Negotiated	Yes	Yes for notes with terms up to 3 years and land acquisition notes sold to seller of land	Yes	Yes
Competitive or Informal Bid	Yes	Yes, Notes over \$5,000,000 and with a term longer than 3 years shall be sold at competitive sale. Notes less than \$5,000,000 with a term longer than 3 years may be sold using an informal bid process as approved by the Comptroller of the Treasury or the Comptroller's Designee.	Yes	Yes
Security	Taxing Power, Revenue, or Taxing Power and Revenue	Taxing Power, Special Tax, Taxing Power and Revenue	Pledge of moneys for principal amount. General obligation of local government or may levy ad valorem taxes for interest.	Current Fiscal Year taxes and revenues.
Term (Yrs.)	2	Up to 12	10	Current Fiscal Year
Renewal	2 Terms	N/A	a. 3 Year - Extension 7 Years b. 7 Years -Extension 3 years	N/A
Total Life (Yrs.)	6	12 Years	10	One Year or Less
Renewal Approved by Director	Yes	N/A	Yes	N/A
Periodic Retirement Waiver	Yes	Yes. Also statutory waiver for interfund CON from TN Private Act Hospital sale proceeds	N/A	N/A
Minimum Retirement of Principal per Year	1/20th after first 2 years	Level debt service payments (specifically, principal and interest does not exceed any prior year by more than 5%). Interfund CON from TN Private Act Hospital sale proceeds- not less than 1/20 of the original principal amount of the notes.	N/A	100%
Other Special Requirements	None	20 Year notes issued to the EPA	None	None
Authority	TCA 9-21 Part 5	TCA 9-21 Part 6	TCA 9-21 Part 7	TCA 9-21 Part 8

h. Financing Leases

Lease financing agreements ~~entered into on or after January 1, 2022~~ meeting certain criteria must be approved by the Comptroller's Office. Tenn. Code Ann. § 9-24-101 et seq. This approval requirement applies to individual lease financing agreements with principal amounts greater than \$100,000 and to individual lease financing agreements that are \$100,000 or less if the principal amount, together with the principal amount of all exempt lease financings issued by the public entity in the same fiscal year exceeds \$100,000. A lease is defined as an agreement for the use of property under which a public entity is the lessee, and a lease financing includes one of the following elements: (a) rental payments include an identifiable interest component; or (b) the local government has the right to purchase the property that is subject to the lease at a price that is not based upon the fair market value of the property at the time of the purchase.

✓ STEP ONE – Submission Requirements for Approval – Financing Lease

Local governments seeking approval to enter into Financing Leases shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to enter into a Financing Lease shall be from and signed by the local government's chief executive officer or designee.

2. Plan of Lease Financing

The Plan of Lease Financing is a certified copy of the draft lease agreement that includes the following key elements:

▪ Lease information summary sheet available on our website: tncot.cc/debt.

- Not to exceed dollar amount.
- Schedule of estimated annual principal and interest requirements.
- Detailed estimated costs of issuance, including one-time fees and recurring administrative or similar fees paid over the life of the lease.
- Lease terms that are reasonable and comparable to debt being issued in the current markets.
- Interest rates and other borrowing costs from two additional lenders for the same amount and maturity of the proposed lease financing.
- A weighted average maturity of the lease principal payments that does not exceed the estimated weighted average life of the property being financed – Tenn. Code Ann. § 9-24-104(a)(2). A weighted average life calculator is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the "Tools" tab.
- A lease term that does not exceed the maximum term of debt that could be issued by the public entity to finance the proposed project – Tenn. Code Ann. § 9-24-104(a)(3).

- Description of the project(s) to be financed with the following minimum information:
 - Estimated useful life (or lives).
 - Authorizing law to incur indebtedness for the project [Tenn. Code Ann. § 9-24-104(a)(3)].
- The lease is payable from all or any portion of the revenues of the public entity, pursuant to applicable law [Tenn. Code Ann. § 9-24-104(a)(4)].
- Not to exceed interest rate that is less than the state usury maximum (Tenn. Code Ann. § 47-14-103).

3. Initial Resolution

If the lease is payable from or secured by property taxes, and the term of the lease exceeds the maximum term of a capital outlay note that may be issued for the same project, the entity must adopt and publish an initial resolution with respect to the lease financing consistent with Tenn. Code Ann. Title 9, Ch. 21, Pt. 2, as applicable with respect to the type of property that is being financed [Tenn. Code Ann. § 9-24-104(a)(5)]. A statement that the local government complied with this provision, as applicable, should be included in the request letter.

4. Balloon Indebtedness

Is the lease considered balloon indebtedness as defined in Tenn. Code Ann. § 9-21-133?

- If it is balloon indebtedness, a separate request to issue balloon debt is required pursuant to “State Funding Board Guidelines for Comptroller Approval of Balloon Indebtedness.”
- If it is not balloon indebtedness because it meets an exception, please include the nature of the exception.

✓ STEP TWO – Approval by the Comptroller’s Office – Financing Lease

1. The request will be reviewed within 15 days of receipt by the Division of Local Government Finance in the Comptroller’s Office. If the submission is incomplete, the 15-day review period will not begin until the needed information is received.
2. Approval can only be granted if the issuance of the lease, as compared to debt being issued in the current markets, is in the best interest of the local government pursuant to Tenn. Code Ann. § 9-24-104. When making this determination, the Comptroller’s Office will consider the following:
 - Do the lease terms appear reasonable and comparable to debt being issued in the current markets?
 - Does the weighted average maturity of the lease principal payments exceed the estimated weighted average life of the property being financed? Tenn. Code Ann. § 9-24-104(a)(2).

- Does the term of the lease not exceed the maximum term of debt that could be issued by the public entity to finance the proposed project? Tenn. Code Ann. § 9-24-104(a)(3).
3. Once the review process is complete, the local government will receive a letter via e-mail from ~~the Director of~~ the Division of Local Government Finance indicating approval or non-approval.
 4. The approval is valid for six months after the date of the letter. If the Financing Lease is not issued within that time, a new plan of lease financing must be prepared and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the Financing Lease.

✓ **STEP THREE – Submission Requirements after Approval – Financing Lease**

1. Debt Report
Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the Financing Lease and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office using the online application located at LGF@cot.tn.gov tncot.cc/debt-report.
2. Annual Budget Approval
Within 15 days of adoption, the local government's annual budget, including supporting schedules, shall be submitted to the Division of Local Government Finance in the Comptroller's Office at.

a. Plans of Refunding

Requirements for a Plan of Refunding

Tennessee statutes require local governments to submit a plan of refunding (the “Plan”) to the Comptroller’s Office for review prior to the adoption of a resolution authorizing the issuance of refunding bonds. The Comptroller’s Office may present the local government with a report on the Plan (“Refunding Report”) that must be submitted to the governing body and reviewed at the public meeting during which the refunding bond authorizing resolution is considered for adoption.

A fillable and downloadable form of a Refunding Plan can be found on the Comptroller’s website at tncot.cc/debt. Please contact the Comptroller’s Office with any questions about this online form.

Statutory Sections Requiring Plans

The following Plans are required to be filed with our office:

- Tenn. Code Ann. § 9-21-612—To issue Capital Outlay Notes (CONs) to refund CONs;
- Tenn. Code Ann. § 9-21-903—To issue General Obligation Bonds to refund General Obligation and/or Revenue debt; and
- Tenn. Code Ann. § 9-21-1003—To issue Revenue Refunding Bonds to refund Revenue debt.
- Tenn. Code Ann. § 12-10-116—To issue Public Building Authority Loans to refund any General Obligation and/or Revenue Debt.

Developing the Plan

Write the Plan to communicate the narrative of the refunding in easy-to-understand language. Clearly state the objectives for the refunding and explain, in detail, how the refunding will accomplish the objectives. There may be multiple objectives; however, list each objective individually and describe them in order of importance.

Objectives of the potential refunding must be clearly stated and may include:

- Debt service savings;
- Reduction of risk;
- Removal of restrictive covenants; or
- Payment of outstanding debt to prevent a default.

Method of Submission

- Requests for Refunding Reports shall be submitted online via the Comptroller of the Treasury's website at tncot.cc/debt. **Please select the "Refunding Plan" tab, fill out the online form, upload supporting documentation, and hit the "Submit" button. Your request will automatically be emailed to LGF@cot.tn.gov.**
- **As an alternative, requests may be manually e-mailed to LGF@cot.tn.gov.** Please note that all Refunding Plans must be submitted in the standard format as shown in the online form under the "Refunding Plan" tab on tncot.cc/debt. **Please contact the Comptroller's Office if you have questions about the online form.**

Please do not send hardcopies of Requests for Refunding Reports to the Comptroller's Office.

Minimum Requirements for A-a Request for a Refunding Report:

Plan of Refunding

The Plan of Refunding must include all relevant portions as explained in the following Narrative. A fillable and downloadable form of a Refunding Plan can be found on the Comptroller's website at tncot.cc/debt. **Please contact the Comptroller's Office with any questions about the online form.**

Narrative

1. State the objective of the refunding and provide a detailed explanation of how the refunding will achieve the objective.
 - a. Cost savings (see savings schedule requirements on page 35).
 - i. Describe how the refunding's cost savings meets the requirements of the local government's adopted debt management policy.
 - ii. Quantify and state savings in dollars and as a percentage of the amount of the refunded debt.
 - iii. Describe how any change in structure and/or interest rate impacts savings.
 - iv. Justify refunding if total combined net present value (NPV) debt service savings are less than 2.5 times the costs of issuance (including underwriter's discount and bond insurance as costs of issuance). Include a sentence that states: *NPV Savings are " _____ " times costs of issuance.*
 - v. If multiple bonds are being refunded and the refunding of a candidate does not produce positive NPV or gross savings, describe why the bond is being included in the refunding.
 - b. Restrictive covenant removal or change (describe the restrictive covenant).
 - c. Payment of outstanding debt to prevent a default (explain in detail).
 - d. Reduction or elimination of risk (list and describe risk(s) and how it is (they are) reduced or eliminated).

2. Security of debt issue (general obligation, revenue, general obligation & revenue, or other [please specify]).
3. Type of sale (competitive or negotiated: if GO bonds are planned to be negotiated, see page 36 for specific requirements).
4. If the refunding bonds contain a feature where the holder of the debt can “put” the bond or loan to the local government at a predetermined date, provide the details of this put option and see State Funding Board’s Guidelines on Balloon Indebtedness, which is available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Balloon Debt” tab.
5. Maximum authorized amount, and anticipated size of issue.
6. Description of each refunded candidate including the following:
 - a. Call date and premium (if any).
 - b. Maturities being called.
 - c. Par amount originally issued.
 - d. Dated date.
 - e. Current amount outstanding.
 - f. Amount to be refunded.
 - g. Tax status (and explanation if status has changed).
 - h. Purpose for which the bonds were issued (Projects).
7. Type of refunding for each refunded candidate:
 - a. Current.
 - b. Advance, in which case provide a statement of the feasibility of an advance refunding under current market conditions including assumptions.
8. Balloon Indebtedness (as defined in Tenn. Code Ann. § 9-21-133) provide one of the following:
 - a. Statement that the refunding does not constitute Balloon Indebtedness and provide the reason; or
 - b. Statement that a separate Plan of Balloon Indebtedness was submitted as prescribed by the State Funding Board (see State Funding Board Guidelines on Balloon Debt, which is available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Balloon Debt” tab.).
 - c. Statement, with applicable documentation, that a State Funding Board waiver is being used.
9. Please specify if a derivative is associated with the refunded debt. If a derivative instrument is associated with the refunding, please contact the Comptroller’s Office for separate submission requirements.
10. Savings schedule, if refunding for savings, or a cost schedule, if restructuring. For each individual refunding bond and an aggregate report, both containing at a minimum:
 - a. A comparison of refunded and anticipated refunding debt service.
 - b. Gross savings amount.
 - c. Net present value savings (NPV) amount (see calculation information in e below).

Schedules

- d. NPV as a percent of refunded principal.
 - e. NPV should be calculated using the arbitrage yield or all in true interest cost (TIC) and should show the discounted difference between total refunded debt service and new refunding debt service for each yearly period: calendar year, fiscal year, or any 12-month recurring period may be used (do not calculate NPV savings using less than a 12-month period).
 - f. Any cost of issuance paid from sources other than bond proceeds and any cash contributed to the escrow other than bond proceeds must be subtracted from savings; only rounding amount up to a whole bond may be included in the final savings amount.
11. Before and after overall debt portfolio schedule (in tabular and chart format) for the security of the bonds (General Obligation/Revenue, or paying source, e.g., water, gas, etc.); showing the effect of the refunding on the overall portfolio.
12. Refunding bond schedules:
- a. Amortization schedule including principal, interest, and total debt service.
 - b. Average coupon, arbitrage rate, all in cost, and TIC
 - c. Weighted average maturity/average life.
 - d. Minimum and maximum debt service payment.
13. Refunded bond schedules for each refunding candidate:
- a. Amount to be refunded.
 - b. Amortization schedule of refunded maturities, including maturity date, principal, interest, and total debt service.
 - c. Average coupon.
 - d. Call date.
 - e. Weighted average maturity/average life.
 - f. Amortization schedule of un-refunded maturities.
 - g. Savings schedule for each bond being refunded.
14. If multiple refunded bonds, include an aggregate schedule of all refunded bonds, including Parts a–d of #13 above.
15. Sources and uses schedule.
16. Detailed costs of issuance schedule (identify firms associated with respective cost, or TBD if to be determined).
17. If the refunding will extend the maturity of the refunded bonds, either by more than 6 months after the date the last maturity is due or the weighted average maturity increases by more than 2%, provide a detailed statement as to why the extension is in the public's interest.
18. Requirements for negotiated sale of general obligation refunding bonds:
- a. Approval by the Comptroller's Office is required for general obligation refunding bonds, including revenue and tax bonds.
 - b. The request for approval of a negotiated sale should be included as part of the request letter for a plan of refunding and must state and demonstrate the private negotiated sale is:
 - i. in the best interest of the local government,

- ii. feasible, and
- iii. the proposed bonds can be amortized with all other obligations outstanding.

At a minimum, the following shall be included with the request for approval:

- i. Draft copy of the proposed resolution authorizing the issuance of the refunding bonds;
- ii. Copy of the proposed disclosure statement, if any; and
- iii. Documentation and analysis that supports the three assertions at 18(b)i-iii above.

The preceding items must be included in a Plan; however, the minimum required information for a Plan must be sufficient to provide an understanding of the transaction, outline the costs, risks, and benefits, and communicate the transaction to your governing body and citizens thus requiring more than the preceding items in the narrative and in any supporting schedules or documents. Additional information may be required to support the planned refunding. The narrative should include an explanation of the information and schedules that support the refunding. The Comptroller's Office may request additional information.

The Comptroller's Office has 15 days from the date of receipt of a complete plan to provide a report. If, due to time constraints, a local government needs the report sooner than 15 days, please contact your Analyst in the Comptroller's Division of Local Government Finance and request an expedited review.

The report issued for a plan will be relevant for 90 days after the date of the report. If the proposed bond issue has not priced during this period, and the local government wishes to continue with the pricing, a new plan (with current assumptions) will need to be submitted for review. Requests for 30-day extensions may be granted on a case-by-case basis and only if the extension is needed due to extenuating circumstances. Please contact the Comptroller's Office if you need to request a 30-day extension.

Contact List

The contact list must include the name, title, firm name, address, phone number, and email address for the following individuals, as applicable:

1. Local Government Issuer:
 - a. Mayor or Executive
 - b. Each member of the governing body
 - c. Chief Financial Officer
2. Municipal Advisor
3. Bond Counsel
4. Underwriter

If professional services are not retained, please state the reason, and identify the individual who prepared the plan of refunding.

After Issuance

Within 45 days of the issuance of refunding bonds, a Debt Report must be completed and presented to the governing body and a copy shall be filed with the Comptroller's Office. We recognize that the information provided in the Plan submitted to the Comptroller's Office is based on preliminary analysis and estimates and that actual results will be determined by market conditions at the time of sale. However, if it is determined prior to the issuance of the debt that the actual results will significantly differ from the information provided in the submitted Plan, and the local government decides to proceed with the issue, the governing body and the Comptroller's Office should be notified after the sale by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences and that the Chief Executive Officer was aware of the differences and determined to proceed with the issuance of the debt.

Notification will be necessary only if there is a change of ten percent (10%) or more in any of the following:

1. An increase in the principal amount of the debt issued;
2. An increase in costs of issuance; or
3. A decrease in the cumulative savings or increase in the loss.

The notification must include an explanation for any significant differences and the justification for change of ten percent (10%) or more from the amounts in the plan. This notification should be presented to the governing body and the Comptroller's Office with the required filing of the Debt Report.

b. State Law Reissuance

Pursuant to Tenn. Code Ann. § 9-21-901(e), the modification of an outstanding obligation must be deemed a refunding of the modified obligation, and such refunding must be required to comply with this chapter, if the modification is of such significance that the obligation would be deemed to be reissued for federal tax law purposes, whether or not the outstanding obligation is tax-exempt for purposes of federal tax laws.

In other words, if the terms of an outstanding obligation are materially changed and would be deemed a reissuance for federal tax law purposes, then the obligation is a refunding and must comply with the requirements of Tenn. Code Ann. Title 9, Chapter 21, including the submission of a plan of refunding to the Comptroller's Office as well as submission of a new Debt Report to the governing body and copy to the Comptroller's Office not later than 45 days following the reissuance.

An example of significant modification would be the change in timing of payments due under the tax-exempt obligation such as an extension of the final maturity or a deferral of payments prior to maturity. Another potential modification is a significant change in the interest rate; however, in no event shall an outstanding obligation be deemed significantly modified and rise to the level of a state law reissuance, if the original obligation allows for and contemplates a modification of the rate of interest of the outstanding obligation at any time during its existence.

c. Utility and E-911 Plans of Financings

Pursuant to Tenn. Code Ann. §§ [7-36-113](#), 7-82-501, 7-86-114, 68-221-611, and 68-221-1311, [Municipal Energy Authorities](#), Utility Districts, E-911 Districts, Water & Wastewater Authorities, and Regional Water & Wastewater Authorities must submit a plan of finance to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov prior to issuance of any debt so the Comptroller's Office can report on it. The plan of finance will be reviewed within 15 days of receipt by the Division of Local Government Finance in the Comptroller's Office. The local government must publish the Comptroller's Report in a newspaper in accordance with state law prior to issuing the debt.

Requests for reports should include the following:

1. Request letter signed by the General Manager/President of the Board.
2. Complete Plan of Finance, including the following key elements:
 - Pro forma financial statements for the three fiscal years subsequent to the most recent audit.
 - Copy of Preliminary Official Statement (for bonds) and draft resolution.
 - For refundings – please refer to “Plans of Refunding” in Section 7a on page 33 for specific requirements. The purpose of the refunding must be for savings, removal or modification of restrictive covenant change, elimination or mitigation of risk due to interest rate changes, or to prevent default. See Tenn. Code Ann. § 9-21-1001(b). Please note: These restrictions do not apply to E-911 districts.
 - For refundings – please refer to “Plans of Refunding” in Section 7 (a) for specific requirements. If the debt is being extended beyond the current maturity, there is a legitimate reason for the extension, and the maturity does not extend beyond the project life.
 - If the objective/purpose for the refunding is for savings, does the % of savings comply with the entity's debt management policy?
3. Is the debt considered Balloon Indebtedness as defined in Tenn. Code Ann. § 9-21-133?
 - If balloon, a separate request to issue balloon debt is required pursuant to “State Funding Board Guidelines for Comptroller Approval of Balloon Indebtedness.”
 - If not balloon indebtedness because it meets an exception, include the nature of the exception.

d. Balloon Debt

Pursuant to requirements outlined in the “Tennessee State Funding Board Guidelines – Comptroller Approval of Balloon Indebtedness,” all requests for approval of balloon indebtedness should include a request letter and plan of balloon indebtedness and be submitted to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov for review and approval. The Comptroller's Office has 15 days to review. Incomplete plans are not considered received. For further illustration of what constitutes balloon indebtedness, see the balloon debt flowchart in the Appendix.

Request Letter

The letter must be signed by the Mayor/Executive or designee and clearly describe the public purpose for the balloon repayment structure and why it is in the public's interest. See Tenn. Code Ann. § 9-21-133(f). It must also include contact information, including e-mail addresses, for all professionals working on the issuance.

Plan of Balloon Indebtedness including the following key elements:

- Not to exceed dollar amount and/or estimated amount of issuance.
- Name of the debt issuance.
- Security.
- Project.
- Material terms of transaction.
- Amortization schedule(s).
- Multiple series of debt to be issued simultaneously that will finance the same project must be reviewed in the aggregate and included in one plan.
- New money debt must be evaluated separately from any refunding debt when issued at the same time.

e. Pledge of Non-tax Revenues

Municipalities or counties that have created a Tourism Development Authority may pledge non-ad valorem taxes and revenues toward the payment of bonds issued pursuant to Tenn. Code Ann. § 7-69-111. Prior to authorization by the creating municipalities and/or counties, approval must be requested from our Office.

Requests for approval should include the following:

1. Signed request letter from the Mayor, County Executive, City Manager, or Finance Director.
2. Proposed resolution authorizing the bonds or notes
3. Proposed disclosure statement; if any
4. Schedule showing the estimated annual principal and interest requirements
5. Detailed statement showing the estimated cost of issuance
6. Listing of projects to be financed
7. Detailed description of non-ad valorem tax revenue pledge including a listing of individual revenues pledged.
8. Five-year history of the pledged revenues.
- 4.9. Five-year proforma balance sheet, income statement, and cash flow analyses for the project showing the estimated inflow and outflows of revenues, expenses, cash, and the effects on net assets and cash balance.

f. Debt Reporting

In Tennessee, any governmental entity that issues debt must complete a Debt Report once the debt is issued. The report must be submitted to the governmental entity's governing body

(e.g., the county commission) within 45 days after the issuance, and an additional copy must be filed with the Comptroller's Office. Please visit the Comptroller's website at tncot.cc/debt-report for specific requirements and filing information.

As approved by the Tennessee State Funding Board, the Debt Report includes various information about the debt incurred, such as:

- the type of debt – bond, note, loan, or ~~capital~~ lease financing – and the purpose of the debt issuance (e.g., general government, education, refunding or refinancing of prior debt);
- the par value of the debt and any discount or premium;
- the interest cost, and whether the interest is taxable or tax-exempt; and
- the method of sale, cost of issuance, and professionals involved on the financing team.

g. Default reporting

A local government defaults when it fails to pay bond interest or principal on time or does not comply with other provisions in the bond contract. Local governments in Tennessee that have defaulted on debt must report to the Comptroller's Office within 10 business days of the default. The Debt Default Reporting Form can be found at tncot.cc/default. You can contact your Analyst in the Comptroller's Division of Local Government Finance for assistance with the form. Please email the completed form to LGF@cot.tn.gov. In addition, industrial development boards must report debt defaults to LGF@cot.tn.gov within 15 days pursuant to State Funding Board Guidelines found at tncot.cc/idc.

h. Debt Management Policies

Pursuant to Tenn. Code Ann. § 9-21-134(b)(1), the State Funding Board is authorized to develop model financial transaction policies for local governments in Tennessee. Local governments incurring or issuing debt shall have an adopted debt management policy (DMP) that complies with the guidance from the State Funding Board found on our website.

The DMP shall be fitted to the local government's needs and reviewed and amended as needed. The DMP should be reviewed at a minimum each time there are legislative changes that impact your policy and when there is a change in the administration.

Section 8 – Federal Oversight of Municipal Bonds

a. Internal Revenue Service and Tax-Exempt Status

The interest paid on debt obligations issued by local governmental entities may be exempt from federal income taxation. Very complex provisions of the Internal Revenue Code, together with hundreds of pages of regulations issued by the Internal Revenue Service, provide guidance as to whether the interest on a debt obligation of a governmental entity is exempt from federal income taxation. If the interest on a debt obligation of a governmental entity is exempt from federal income taxation, that type of debt obligation is frequently referred to as a tax-exempt bond, whether the obligation is a bond, note, loan agreement, or financing lease. For purposes of this Section, all debt obligations that are tax-exempt (i.e., the interest on the debt obligation is exempt from federal income taxation) are referred to as tax-exempt bonds irrespective of the type of debt obligation.

It is often beneficial for a local government entity to issue a debt obligation that is a tax-exempt bond when undertaking a borrowing. Because the holder of the tax-exempt bond does not pay federal income tax on the interest of the tax-exempt bond, the holder should charge a lower interest rate on the tax-exempt bond. The interest rate on a tax-exempt bond is usually 20% to 30% less than a comparable taxable debt obligation. Therefore, it is often in the best interests of the local government entity to ensure that a debt obligation qualifies as a tax-exempt bond.

A debt obligation issued by a local government entity is never automatically a tax-exempt bond. Although many debt obligations issued by local government entities can be tax-exempt, a local government entity must meet certain requirements of the Internal Revenue Code and the related regulations to qualify a debt obligation as a tax-exempt bond. For example, in connection with any tax-exempt bond, a notice filing must be made with the Internal Revenue Service. Because these requirements can be very complex, many local government entities retain bond counsel that has experience with tax-exempt bond issues to provide an opinion that a debt obligation is tax-exempt, and many purchasers of tax-exempt debt also require the receipt of such an opinion.

In determining whether a debt obligation of a local government entity can be a tax-exempt bond, the Internal Revenue Code distinguishes between two types of obligations—governmental bonds and private activity bonds. Almost all governmental bonds can be tax-exempt bonds, while many private activity bonds cannot be tax-exempt bonds. A

governmental bond is essentially any debt obligation issued by a local government entity that is not a private activity bond. Very generally, a private activity bond is a debt obligation issued by a local government entity if (i) more than 10% of the proceeds of the debt obligation will be used by a private party or the federal government **and** (ii) more than 10% of the debt service on the debt obligation is payable by a private party or the federal government. Very complex regulations interpret this general rule, but in most cases, debt obligations issued by traditional governmental entities, such as counties, cities, school districts, and utility districts, will not be private activity bonds and instead will be governmental bonds that can be tax-exempt.

If a debt obligation of a local government entity is a private activity bond, it likely will be a taxable obligation, but under certain circumstances, it still might qualify as a tax-exempt bond. The following categories of private activity bonds may be eligible to be tax-exempt bonds provided all other relevant requirements are met:

- Bonds for non-profit entities that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Under this exemption, bonds issued for many hospitals, private schools and colleges, and other non-profit institutions can be tax-exempt.
- Bonds issued to finance low-income housing, even if privately owned.
- Bonds issued to finance airport facilities, even if privately used or owned.
- Bonds issued to finance certain small manufacturing facilities, even if privately owned (generally facilities with a total capital cost of less than \$20 million).
- Bonds issued to finance certain solid waste disposal facilities, even if privately owned.

Most private activity bonds are issued by local government instrumentalities, such as industrial development boards and health, education, and housing facility boards, and not traditional local government entities. In these cases, the issuing entity usually issues bonds at the request of a private party and loans the proceeds of the bonds to the private party. This type of financing is frequently referred to as a conduit bond financing because the local government entity is just serving as a conduit for the financing in order to obtain tax-exempt status, and the local government entity generally has no liability to pay the bonds except from payments made by the private party.

As previously mentioned, complex rules apply to all tax-exempt bonds. The most complex rules address issues relating to arbitrage, which means the investment of proceeds of tax-exempt bonds at a higher interest rate than the interest rate being paid on the bonds. Because bond proceeds can be invested in taxable investments, the interest rate on the investments can sometimes exceed the interest rate paid on the tax-exempt bonds, and this difference is considered arbitrage by the Internal Revenue Service. Some types of arbitrage are acceptable, and other types are not. An issuer's bond counsel should assist the issuer in complying with any arbitrage rules.

Many other rules apply to tax-exempt bonds, particularly private activity bonds that are tax-exempt bonds. Those additional rules include the following:

- The applicable rules may limit the amount of bond proceeds that a local government issuer can use to reimburse itself for expenditures that were made prior to the bonds being issued. This rule applies to governmental bonds and private activity bonds.
- A volume cap allocation from the State or a State agency may be required for certain private activity bonds including bonds for low-income housing.
- Most private activity bonds must be approved by the highest elected official in the jurisdiction in which the financed project is located.
- Most tax-exempt bonds are subject to a requirement that average weighted maturity of the bonds cannot exceed 120% of the average economic life of the assets financed, either through the arbitrage rules or a specific rule applicable to private activity bonds.
- Private activity bonds are generally subject to a limit on financed issuance costs.
- Tax-exempt bonds cannot be refinanced with other tax-exempt bonds more than 90 days before the refinanced tax-exempt bonds can be redeemed. In other words, “advance refundings,” which at one point were fairly common for governmental bonds, can no longer be issued as tax-exempt bonds.

Notes issued for working capital purposes, such as tax anticipation notes, can be issued as tax-exempt obligations if a number of requirements are met. The most significant requirement is that the issuer must demonstrate that a cash flow deficit is expected to occur in order to justify the working capital borrowing. Except under the most unusual of circumstances, working capital borrowings must be short-term in order to be tax-exempt.

Many tax-exempt bonds issued by smaller issuers are also “bank qualified” obligations under the Internal Revenue Code. “Bank qualified” obligations are a subset of tax-exempt bonds. The interest on “bank qualified” bonds is exempt from federal income taxation just like other tax-exempt bonds, but there are some additional tax benefits to banks and other financial institutions to buy “bank qualified” bonds. Therefore, a bank may offer a particularly attractive interest rate to purchase a tax-exempt bond that is also “bank qualified.” Bond counsel can advise as to whether a tax-exempt bond issue can also be “bank qualified.”

The Internal Revenue Service can audit a debt obligation of a local government entity in a manner similar to an audit of a tax return for an individual or a corporation. The audit process can be complex, and a local government should consider obtaining professional assistance if an issuer’s tax-exempt bond is the subject of an audit. In the worst-case scenario, the Internal Revenue Service could determine that a debt obligation is not eligible to be a tax-exempt bond, in which case the holders of the obligation would have to pay tax on the interest on the obligation (and would likely seek relief against the local government issuer or other parties involved).

b. Federal Securities Laws

When private entities publicly sell debt and/or equity, private entities are frequently required to submit a registration statement relating to the debt and/or equity to the federal Securities and Exchange Commission (“SEC”). Local government entities are generally exempt from such registration requirements in connection with the sale of debt. Therefore, only in very rare circumstances will a local government entity be required to file a registration statement

with the SEC. Generally, official statements and other offering documents of local government entities are not required to be submitted to or approved by the SEC or any other government entity prior to the sale of the debt.

While local government entities are generally exempt from registration requirements, local government entities are not exempt from the anti-fraud regulations that have been issued by the SEC. Under these regulations, the issuer of debt must not make fraudulent statements or engage in certain other abusive practices in connection with the sale of securities, and municipal bonds and other types of municipal debt are typically considered securities for this purpose. If a local government entity makes a material misstatement in connection with the sale of its debt, the local government entity could be the subject of an enforcement action by the SEC or could be sued by the purchasers of its debt. It is therefore essential that the official statement or other offering document pursuant to which a local government entity offers to sell debt be as accurate as is possible.

Many local government entities rely on a municipal advisor (also known as a financial advisor) to prepare the disclosure relating to the local government entity that is included in the official statement or other offering document. Even though a third party prepares this information, the local government still remains primarily responsible for the accuracy of the information in the official statement or other offering document, and the Chief Executive Officer and/or Chief Financial Officer should carefully review all offering documents as to the accuracy of the information contained therein. Some local government issuers retain legal counsel, which is known as disclosure counsel, to assist in ensuring that requirements of the securities laws are met in connection with disclosure of a debt offering. Disclosure counsel may be the same law firm as bond counsel or may be another law firm hired specifically for that purpose. Unless bond counsel is asked to also assist with the accuracy of disclosure relating to a local government, bond counsel generally has no role in that regard, and bond counsel's involvement with the official statement or other offering document is limited to describing the debt being sold (and not the information relating to the issuer).

If a local government entity sells debt in a public sale, the local government will become obligated to provide updated financial information to the holders of the debt on at least an annual basis under Rule 15c2-12 issued by the SEC. If the local government entity has less than \$10 million in public debt outstanding, the local government entity may only be required to file its audit each year, and if the local government entity has more than \$10 million in public debt outstanding, the local government entity will likely have to provide additional financial information. These annual updates are filed on a financial reporting website with the acronym "EMMA," which is maintained by the Municipal Securities Rulemaking Board ("MSRB"). Many local government entities rely on a dissemination agent to make annual disclosure filings, but the primary responsibility for making such filings remains with the local government entity. Failure to make such annual filings can make the future offering of public debt by the issuer more difficult and possibly more expensive.

While the federal government does not generally have the right to exercise direct oversight over the issuance of debt by local government entities, the federal government, through the MSRB, exercises broad regulatory oversight over underwriters and municipal advisors. Under

MSRB regulations, underwriters must comply with a number of rules relating to the purchase and sale of municipal securities, such as the delivery of official statements. In order to comply with these rules, underwriters will require local government entities, in connection with the purchase of debt, to provide certain information and meet certain requirements to allow the underwriter to comply with MSRB requirements. The MSRB also regulates municipal advisors and regulates the standards of conduct of municipal advisors.

Section 9 – Best Practices and Other Resources

Various resources are available to local government entities to assist with the issuance of debt. The resources referenced in this section will be helpful to local government entities that are not conduit debt issuers and that issue debt based upon their own credit.

a. Seven Keys

The Seven Keys to a Fiscally Well-Managed Government is a document produced by the Comptroller’s Office that outlines various characteristics present in financially well-managed governments. Follow this link for a printable copy for your board and for related videos: tncot.cc/7keys

Building a Strong Budget for a Resilient Government

Structurally Balanced Budget

A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance, indicate the budget is not structurally balanced. [Tenn. Code Ann. § 9-21-403]

Cash Flow Management

A local government’s ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues along with cash on hand to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity either internally (interfund tax anticipation note “TAN”) or externally (bank issued TAN) prove to be necessary. [Tenn. Code Ann. § 9-21-801]

Forecasting Budgetary Amounts

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide for reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [Tenn. Code Ann. § 9-21-403]

Planning for Unknowns

Rainy Day Reserve

Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy day fund should at times expect to use the reserves but also have a policy for replacing the funds.

Contingency Spending Plans

Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year, and revenues cannot be adjusted quickly, then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Planning for Tomorrow

Long-Term Liability Planning

Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprises a large percentage of the budget, consistent management of the government's obligations is essential.

Multi-Year Financial Planning

Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.

b. Financial Health Metrics

Financially healthy local governments tend to have a few traits in common—they operate with balanced budgets, do not spend nonrecurring funds on recurring expenses, maintain adequate cash reserves, have a manageable debt burden, and keep liabilities in check. Local governments that do not manage these items tend to experience financial issues that show up in the following metrics that the Comptroller's Office calculates annually:

Financial Distress Metrics	Description	No Concern	Mild Concern	Distress Concern
Cash as a Percent of Expenditures	How much cash do I have to pay cash flow and unexpected spending?	Above 15%	Less than 15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Have I been paying my bills?	Less than 25%	From 25% to 75%	Greater than 75%
Debt as a Percent of Assessed Value	How burdensome is my debt load?	Less than 8%	8% to 10%	Greater than 10%
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year if cash balance is also an issue?	Positive value	0% to negative 2%	More than negative 2%

c. University of Tennessee Technical Assistance Services

The Municipal Technical Advisory Service (MTAS) assists Tennessee *cities* and *towns* with finance and accounting, human resources, legal services, municipal management, public safety, public utilities, and public works. <https://www.mtas.tennessee.edu/>

The County Technical Assistance Service (CTAS) assists Tennessee *counties* with financial services, legal services, information technology, highway services, public safety, environmental services, training services, and research and analysis. <http://www.ctas.tennessee.edu/>

The Tennessee Association of Utility Districts (TAUD) provides Tennessee *utilities* with training, industry information and publications, and legislative updates. <https://taud.org/>

d. Debt Coverage

The State of Tennessee does not limit the amount of debt a local government can issue; however, all local governments should know what amount of debt they can afford.

The Government Finance Officers Association (GFOA) states in its Debt Management Policy Best Practices that local governments' debt management policy should consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial restrictions and planning considerations. Debt limits often are expressed as ratios. Different limits are used for different types of debt. Examples include:

- i. General Government Debt:
 - Debt per capita,
 - Debt to personal income,
 - Debt to taxable property value, and
 - Debt service payments as a percentage of general fund revenues or expenditures.
- ii. Revenue Debt
Revenue debt levels often are limited by debt service coverage ratios, additional bond provisions contained in bond covenants, and potential credit rating impacts.

For more information, see the GFOA website at: <https://www.gfoa.org/>

For local governments with rated debt, or those seeking a rating, rating agencies set outer limits on the amount of debt and/or debt service allowed for their various rating categories (see Section 9e and rating agency websites and other resources for more information on specific rating methodologies).

The Division of Local Government Finance recommends that all local governments that have outstanding debt, or plan to issue debt, review their debt management policy and discuss the merits of setting a debt limit for each debt security (general obligation/revenue) the local government maintains. The local government should also review the Financial Health Metrics section of this Manual for guidance on debt metrics.

e. Rating Agencies

Rating agencies provide, for a fee, opinions on the credit quality of an entity that issues bonds, or a specific bond issue—in other words, how likely the issuer is to pay principal and interest on time. In determining a rating, the rating agency reviews, among other factors, the issuer’s financial reports, tax structure and related laws, demographic data, and economic statistics.

The three major rating agencies are Moody’s Investors Service, Standard and Poor’s (S&P), and Fitch Ratings.

	Rating	Definition
Investment Grade	Aaa/AA	The highest rating – considered the highest quality, with minimal risk of default.
	A	
	Aa/AA	Considered high quality with very low risk.
	A	Considered upper-medium grade with low risk of default.
Non-Investment Grade – Speculative or “Junk” Bonds	Baa/BB	Considered medium-grade; may have speculative characteristics.
	B	
	Ba/BB	Considered to have some speculative elements and substantial risk of default.
	B	Considered speculative with high risk of default.
	Caa/CC	Considered poor quality with very high risk of default.
	C	
	Ca/CC/	Considered highly speculative, and likely in default or close to default; some chance of recovering principal and interest.
	C	
C/D	The lowest rating – usually in default with little chance of recovering principal and interest.	

Depending on the rating agency, modifiers of 1, 2, and 3, or +/- are added to each rating classification—e.g., Aa1 or BB+ – to indicate whether the security falls into the low or high end of the range. Definitions adapted from Moody’s Investors Service.



Appendix

1. **Bond Anticipation Note Resolution**
2. **Capital Outlay Note Resolution**
3. **Grant Anticipation Note Resolution**
4. **Tax Anticipation Note Resolution**
5. **Informal Bid Form**
6. **Balloon Debt Law Flowchart**

Appendix 1

Bond Anticipation Note Resolution

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____, TENNESSEE,

AUTHORIZING THE ISSUANCE, SALE, AND PAYMENT OF

_____ BOND ANTICIPATION NOTES

NOT TO EXCEED \$ _____

WHEREAS, the Governing Body of _____, Tennessee (the Local Government) has determined that it is necessary and desirable to provide funds for the following public works project (the "Project"): _____

(If multiple projects are involved, attach separate sheet identifying each project, its estimated economic life, and the portion of the Notes to be applied to the cost of such project ;) and

WHEREAS, the Governing Body has determined that the Project will promote or provide a traditional governmental activity or otherwise fulfill a public purpose; and

WHEREAS, the Local Government intends to issue and sell general obligation bonds (the "Bonds") pursuant to the provisions of Title _____, Tennessee Code Annotated, to finance the cost of the Project; and, if required by law, has duly adopted an initial resolution authorizing the issuance of the Bonds; and

WHEREAS, under the provisions of Parts I, IV, and VI of Title 9, Chapter 21, Tennessee Code Annotated (the "Act"), local governments in Tennessee are authorized to issue and sell interest bearing bond anticipation notes for the purpose of providing funds in anticipation of the issuance of bonds upon the approval of the Comptroller of the Treasury or the Comptroller's designee; and

WHEREAS, the Governing Body finds that it is advantageous to the Local Government to authorize the issuance of bond anticipation notes at this time:

NOW THEREFORE, BE IT RESOLVED by the Governing Body of _____, Tennessee, as follows:

Section 1. For the purpose of providing funds in anticipation of the issuance of the Bonds, the chief executive officer of the Local Government is hereby authorized in accordance with the terms of this resolution, and upon approval of the Comptroller of the Treasury or Comptroller's designee for the sale of the Notes, to issue and sell interest-bearing bond anticipation notes in a principal amount not to exceed

_____ Dollars (\$_____) (the “Notes”) at either a competitive public sale or at a private negotiated sale pursuant to the terms, provisions, and conditions permitted by law. The Notes shall be designated “_____Bond Anticipation Notes, Series 20__”, shall be numbered serially from 1 upwards; shall be dated as of the date of issuance; shall be in denomination(s) as agreed upon with the purchaser; shall be sold at not less than 99% of par value and accrued interest; and shall bear interest at a rate or rates not to exceed _____ percent (_____%) per annum, and in no event shall the rate exceed the legal limit provided by law.

Section 2. The Notes shall mature not later than two (2) years after the date of issuance. If any of the Notes shall remain unpaid at the end of two (2) years from the original issue date, then the unpaid Notes shall be renewed or extended as permitted by law or retired from the funds of the Local Government or be converted into bonds pursuant to state law or be otherwise liquidated as approved by the Comptroller of the Treasury or Comptroller’s designee.

Section 3. The Notes shall be subject to redemption at the option of the Local Government, in whole or in part, at any time, at the principal amount an accrued interest to the date of redemption, without a premium, or, if sold at par, with or without a premium of not exceeding one percent (1%) of the principal amount.

Section 4. The Notes shall be direct general obligations of the Local Government and, for the purpose of providing funds for the payment of principal of and interest on the Notes, the Local Government hereby pledges its taxing power as to all taxable property in the Local Government for the purpose of providing funds for the payment of principal of and interest on the Notes. The Governing Body of the Local Government hereby authorizes the levy and collection of a special tax on all taxable property of the Local government over and above all other taxes authorized by the Local government to create a sinking fund to retire the Notes with interest as they mature in an amount necessary for that purpose.

If applicable, the Notes shall be further secured by _____

(If the revenues generated by the Project are to be applied as additional security for the Notes, describe such revenues here.)

Section 5. The Notes shall be executed in the name of the Local Government and bear the signature of the chief executive officer of the Local Government and the signature of the _____ with the Local Government seal affixed thereon; and shall be payable as to principal and interest at the office of the _____ of the Local Government or the paying agent duly appointed by the Local Government. Proceeds of the Notes shall be deposited with the _____ of the Local Government and shall be paid out for the purpose of providing funds in anticipation of the issuance of the Bonds pursuant to this Resolution and as required by law.

Section 6. The Notes will be issued in fully registered form and that at all times during which any Notes remains outstanding and unpaid, the Local Government or its agent shall keep or cause to be kept at its office a note register, if held by an agent of the Local Government, shall at all times be open for inspection by the Local Government or any duly authorized officer of the Local Government. Each Note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the registered owner of the Note in person or by the registered owner’s attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent together with a written instrument of transfer satisfactory to the Local Government duly executed by the

registered owner of the registered owner's duly authorized attorney. Upon the transfer of any such Note, the Local Government shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered Notes. The Local Government shall not be obligated to make any such Note transfer during the fifteen (15) days next preceding an interest payment date of the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Section 7. The Notes shall be in substantially the form attached as Attachment 1 with only changes as are necessary or appropriate to comply with the requirements of the purchaser thereof.

Section 8. The Bonds will be issued under the authority of Title _____ of Tennessee Code Annotated.

Section 9. This Resolution shall not be effective until the initial resolution authorizing the issuance of the Bonds, if required by law, shall have been adopted and published, and no petition protesting the issuance of the Bonds shall have been filed as permitted by law.

Section 10. The Notes may be renewed or extended as permitted by law.

Section 11. The Notes shall not be sold until receipt of written approval for the sale of the Notes from the Comptroller of the Treasury or the Comptroller's designee.

Section 12. After the sale of the Notes, and for each year that any of the Notes are outstanding, the Local Government shall prepare an annual budget and budget ordinance in a form consistent with accepted governmental standards and as approved by the Comptroller of the Treasury or Comptroller's designee. The budget shall be kept balanced during the life of the Notes and shall appropriate sufficient monies to pay all annual debt service. The annual budget and ordinance shall be submitted to the Comptroller of the Treasury or Comptroller's designee immediately upon its adoption; however, it shall not become the official budget for the fiscal year until such budget is approved by the Comptroller of the Treasury or Comptroller's Designee in accordance with Title 9, Chapter 21, Tennessee Code Annotated (the "Statutes"). If the Comptroller of the Treasury or Comptroller's Designee determines that the budget does not comply with the Statutes, the Governing Body shall adjust its estimates or make additional tax levies sufficient to comply with the Statutes, or as directed by the Comptroller of the Treasury or Comptroller's designee.

Section 13. That, all orders or resolutions in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage and the satisfaction of all conditions referenced in this Resolution.

Duly passed and approved this _____ day of _____, 20__.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

Attachment 1
BOND ANTICIPATION NOTE FORM

Registered Note No. _____

Registered \$ _____

(Name of Local Government)

of the State of Tennessee

Bond Anticipation Notes, Series 20__

Bond Anticipation Notes, Extension Note Series 20__

DATED: _____

INTEREST RATE: _____

MATURITY DATE: _____

Registered Owner: _____

Principal Sum: _____

The _____ (Governing Body) of _____ Tennessee (the Local Government) 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 note 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 to the Local Government or its agent, and to pay interest on the Principal Sum on _____ and thereafter on _____ of each year at the Interest Rate per annum (specified above), by check, draft, or warrant mailed to the Registered Owner at the address of the Registered Owner as it appears on the fifteenth (15th) calendar day of the month next preceding the applicable payment date in the note register maintained by or on behalf of the Local Government. Both principal of and interest on this note are payable at the office of the _____ of the Local Government or a paying agent duly appointed by the Local Government in lawful money of the United States of America.

This note is a direct obligation of the Local Government for the payment of which as to both principal and interest the full faith and credit of the Local Government is pledged.

This note is subject to redemption prior to its stated maturity in whole or in part at any time at the option of the Local Government upon payment of the principal amount of the note together with the interest accrued thereon to the date of redemption with a premium of _____ % of par value.

This note is issued under the authority of Parts I, IV, and V of Title 9, Chapter 21, Tennessee Code Annotated, and a Resolution duly adopted by the Governing Body of the Local Government meeting in session on the _____ day of _____, 20____ (the "Resolution") to provide funds in anticipation of the issuance of the bonds referenced in the Resolution.

This note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the Registered Owner of the note in person or by the Registered Owner's attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent of the note together with a written instrument of transfer satisfactory to the Local Government duly executed by the Registered Owner or the Registered Owner's duly authorized attorney but only in the manner as provided in the Resolution of the Local Government authorizing the issuance of this note and upon surrender hereof for cancellation. Upon the transfer of any such note, the Local Government or its agent shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered note. The Local Government shall not be obligated to make any such Note transfer during the fifteen (15) days next preceding an interest payment date on the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Title 9, Chapter 21, Section 117, Tennessee Code Annotated provides that this note and interest thereon are exempt from taxation by the State of Tennessee or by any county, municipality, or taxing district of the State, except for inheritance, transfer, and estate taxes and except as otherwise provided under the laws of the State of Tennessee.

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 note exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State of Tennessee, and that the amount of this note, together with all other indebtedness of the Local Government, does not exceed any constitutional or statutory limitation thereon, and that this note is within every constitutional and statutory limitation.

IN WITNESS WHEREOF, the Governing Body of the Local Government has caused this note to be executed in the name of the Local Government by the signature of the _____, and attested by the signature of the _____ with the Seal of the Local Government affixed hereto or imprinted hereon, and this note to be dated as of the _____ day of 20____.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

ASSIGNMENT

Note No. _____

Amount: \$ _____

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

(Name and Address of assignee)

(Please indicate social security or other tax identifying number of assignee)

The within-mentioned note and hereby irrevocably constitutes and appoints _____
attorney-in-fact, to transfer the same on the note register in the office of the _____
or the agent of the Local Government with full power of substitution in the premises.

Date: _____

Assignor: _____

Address: _____

Appendix 2

Capital Outlay Note Resolution

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____, TENNESSEE,

AUTHORIZING THE ISSUANCE, SALE, AND PAYMENT OF

_____ CAPITAL OUTLAY NOTES

NOT TO EXCEED \$ _____

WHEREAS, the Governing Body of the _____ Tennessee, (the "Local Government") has determined that it is necessary and desirable to issue capital outlay notes in order to provide funds for the following public works project: _____ (the "Project"); and

WHEREAS, the Governing Body has determined that the Project is a public works project within the meaning of the Act (as defined below); and

WHEREAS, under the provisions of Parts I, IV and VI of Title 9, Chapter 21, Tennessee Code Annotated (the "Act"), local governments in Tennessee are authorized to finance the cost of this Project through the issuance and sale of interest-bearing capital outlay notes upon the approval of the Comptroller of the Treasury or Comptroller's designee; and

WHEREAS, the Governing Body finds that it is advantageous to the Local Government to authorize the issuance of capital outlay notes to finance the cost of the Project;

NOW THEREFORE, BE IT RESOLVED by the Governing Body of _____ Tennessee, as follows:

Section 1. For the purpose of providing funds to finance the cost of the Project, the chief executive officer of the Local Government is hereby authorized in accordance with the terms of this resolution, and upon approval of the Comptroller of the Treasury or Comptroller's designee, to issue and sell interest-bearing capital outlay notes in a principal amount not to exceed _____ Dollars (\$_____) (the "Notes"). The Notes shall be designated "_____ Capital Outlay Notes, Series 20__"; shall be numbered serially from 1 upwards; shall be dated as of the date of issuance; shall be in denomination(s) as agreed upon with the purchaser; shall be sold at not less than 99% of par value plus accrued interest if any; and shall bear interest at a rate or rates not to exceed _____ per cent (____%) per annum, and in no event shall the rate exceed the legal limit provided by law.

Section 2. The Notes shall mature _____ (_____) fiscal years after the fiscal year of issuance and, unless otherwise approved by the Comptroller of the Treasury or Comptroller's designee, the Notes shall be amortized through mandatory redemption in amounts reflecting level debt service on the Notes or an equal amount of principal paid in each fiscal year as is agreed upon by the chief executive officer and the Purchaser. The principal amount paid in each fiscal year shall be set forth in the form of the Note. The weighted average maturity of the Notes shall not exceed the reasonably expected weighted average life of the Project which is hereby estimated to be _ years.

Section 3. [The Notes shall be subject to redemption at the option of the Local Government, in whole or in part, at any time, at the principal amount and accrued interest to the date of redemption, without a premium, or, if sold at par, with or without a premium of not exceeding one percent (1%) of the principal amount as determined with the purchaser.] [The Notes shall not be subject to redemption prior to maturity.] [Select one option]

Section 4. The Notes shall be direct general obligations of the Local Government, for which the punctual payment of the principal and interest on the Notes, the full faith and credit of the Local Government is irrevocably pledged, and the Local Government hereby pledges its taxing power as to all taxable property in the Local Government for the purpose of providing funds for the payment of principal of and interest on the Notes. The Governing Body of the Local Government hereby authorizes the levy and collection of a special tax on all taxable property of the Local Government over and above all other taxes authorized by the Local Government to create a sinking fund to retire the Notes with interest as they mature in an amount necessary for that purpose.

Section 5. The Notes shall be executed in the name of the Local Government; shall bear the signature of the chief executive officer of the Local Government and the signature of the recording officer of the Local Government and shall be payable as to principal and interest at the office of recording officer of the Local Government or at the office of the paying agent duly appointed by the Local Government. Proceeds of the Notes shall be deposited with the official designated by law as custodian of the funds of the Local Government. All proceeds shall be paid out for financing the Project pursuant to this Resolution and as required by law.

Section 6. The Notes will be issued in fully registered form and that at all times during which any Note remains outstanding and unpaid, the Local Government or its agent shall keep or cause to be kept at its office a note register for the registration, exchange or transfer of the Notes. The note register, if held by an agent of the Local Government, shall at all times be open for inspection by the Local Government or any duly authorized officer of the Local Government. Each Note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the registered owner of the Note in person or by the registered owner's attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent together with a written instrument or transfer satisfactory to the Local Government duly executed by the registered owner or the registered owner's duly authorized attorney. Upon the transfer of any such Note, the Local Government shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered Notes. The Local Government shall not be obligated to make any such Note transfer during the fifteen (15) days next preceding an interest payment date on the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Section 7. The Notes shall be in substantially the form attached as Attachment 1 with only changes as are necessary or appropriate to comply with the requirements of the purchaser thereof as determined by the chief executive officer.

Section 8. [The Notes shall be sold at competitive sale in accordance with the Act.] or [The Notes shall be sold by negotiated sale in accordance with the Act.] or [The Notes shall be sold through the informal bid process provided in Tenn. Code Ann. Section 9-21-609.]

Section 9. The Notes shall not be sold until receipt of the Comptroller of the Treasury or Comptroller's Designee's written approval for the sale of the Notes.

Section 10. The chief executive officer is authorized to designate the Notes as qualified tax-exempt obligations for the purpose of Section 265(b) (3) of the Internal Revenue Code of 1986 if so eligible to be designated.

Section 11. After the sale of the Notes, and for each year that any of the Notes are outstanding, the Local Government shall prepare an annual budget and budget ordinance in a form consistent with accepted governmental standards and as approved by the Comptroller of the Treasury or Comptroller's designee. The budget shall be kept balanced during the life of the Notes and shall appropriate sufficient monies to pay all annual debt service. The annual budget and ordinance shall be submitted to the Comptroller of the Treasury or Comptroller's designee immediately upon its adoption; however, it shall not become the official budget for the fiscal year until such budget is approved by the Comptroller of the Treasury or Comptroller's Designee in accordance with Title 9, Chapter 21, Tennessee Code Annotated (the "Statutes"). If the Comptroller of the Treasury or Comptroller's designee determines that the budget does not comply with the Statutes, the Governing Body shall adjust its estimates or make additional tax levies sufficient to comply with the Statutes, or as directed by the Comptroller of the Treasury or Comptroller's designee.

Section 12. All orders or resolutions in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage.

Duly passed and approved this _____ day of _____, 20__.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

Attachment 1
CAPITAL OUTLAY NOTE FORM

Registered Note No. _____

Registered \$ _____

(Name of Local Government)

of the State of Tennessee

Capital Outlay Notes, Series 20__

DATED: _____

INTEREST RATE: _____

MATURITY DATE: _____

Registered Owner: _____

Principal Sum: _____

_____, Tennessee (the Local Government) 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 or according to an amortization schedule attached hereto (unless this note 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 to the Local Government or its agent, and to pay interest on the Principal Sum on _____ and thereafter on _____ of each year at the Interest Rate per annum specified above or according to an amortization schedule attached hereto, by check, draft, or warrant mailed to the Registered Owner at the address of the Registered Owner as it appears on the fifteenth (15th) calendar day of the month next preceding the applicable payment date in the note register maintained by or on behalf of the _____ Local Government. Both principal of and interest on this note are payable at the office of the Of the Local Government or a paying agent duly appointed by the Local Government in lawful money of the United States of America.

This note is a direct obligation of the Local Government for the payment of which as to both principal and interest the full faith and credit of the Local Government is pledged.

[This note is subject to redemption prior to its stated maturity in whole or in part at any time at the option of the Local Government upon payment of the principal amount of the note together with the

interest accrued thereon to the date of redemption with a premium of _____% of par value.][This note is not subject to redemption prior to maturity.] [Select one option.]

This note is issued under the authority of Parts I, IV, and VI of Title 9, Chapter 21, Tennessee Code Annotated, and a Resolution duly adopted by the Governing Body of the Local Government meeting on the _____day of _____, 20____(the "Resolution") to provide funds to finance the cost of public works projects referenced in the Resolution.

This note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the Registered Owner of the note in person or by the Registered Owner's attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent of the note together with a written instrument of transfer satisfactory to the Local Government duly executed by the Registered Owner or the Registered Owner's duly authorized attorney but only in the manner as provided in the Resolution of the Local Government authorizing the issuance of this note and upon surrender hereof for cancellation. Upon the transfer of any such note, the Local Government or its agent shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered note. The Local Government shall not be obligated to make any such Note transfer during the fifteen (15) days next preceding an interest payment date on the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Pursuant to Tenn. Code Ann. Section 9-21-117, this note and interest thereon are exempt from all state, county, and municipal taxation except for inheritance, transfer and estate taxes and except as otherwise provided under the laws of the State of Tennessee.

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 note exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State of Tennessee, and that the amount of this note, together with all other indebtedness of the Local Government, does not exceed any constitutional or statutory limitation thereon, and that this note is within every constitutional and statutory limitation.

IN WITNESS WHEREOF, the Governing Body of the Local Government has caused this note to be executed in the name of the Local Government by the signature of the _____ and attested by the signature of the _____ with the Seal of the Local Government affixed hereto or imprinted hereon, and this note to be dated as of the _____ day of 20_____.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

ASSIGNMENT

Note No. _____

Amount: \$ _____

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

(Name and Address of assignee)

(Please indicate social security or other tax identifying number of assignee)

The within-mentioned note and hereby irrevocably constitutes and appoints _____
attorney-in-fact, to transfer the same on the note register in the office of the _____
_____ or the agent of the Local Government with full power of substitution in the premises.

Date: _____

Assignor: _____

Address: _____

Appendix 3

Grant Anticipation Note Resolution

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____, TENNESSEE,

AUTHORIZING THE ISSUANCE, SALE, AND PAYMENT OF

_____ GRANT ANTICIPATION NOTES

NOT TO EXCEED \$ _____

WHEREAS, the Governing Body of _____, Tennessee, (the "Local Government" has determined that it is necessary and desirable to provide funds for the following public works project (the "Project"): _____

(If multiple projects are involved, attach separate sheet identifying each project, its estimated economic life, and the portion of the Notes to be applied to the cost of such project ;) and

WHEREAS, the Governing Body has determined that the Project will promote or provide a traditional governmental activity or otherwise fulfill a public purpose; and

WHEREAS, there is on file in the offices of the Local Government a fully executed contract or agreement between _____ (designate the state or federal agency) (the "Agency") and the Local Government, dated _____, 20____, whereby the Agency agrees to pay the Local Government a principal amount of _____ Dollars (\$ _____) (the "Agency Grant") to finance the cost of the Project; and

WHEREAS, under the provisions of Parts I, IV, and VI of Title 9, Chapter 21, Tennessee Code Annotated (the "Act"), local governments in Tennessee are authorized to issue and sell interest-bearing grant anticipation notes upon the approval of the Comptroller of the Treasury or the Comptroller's designee; and

WHEREAS, the Governing Body finds that it is advantageous to the Local Government to authorize the issuance and sale of grant anticipation notes to provide funds in anticipation of the Agency Grant;

NOW, THEREFORE, BE IT RESOLVED, by the Governing Body of _____, Tennessee as follows:

Section 1. For the purpose of providing funds in anticipation of the Agency Grant, the Local Government is hereby authorized to issue and sell interest-bearing grant anticipation notes in a principal amount not to exceed _____ Dollars (\$ _____) (the "Notes") at either a competitive public sale or at a private negotiated sale upon approval of Comptroller of the Treasury or the Comptroller's designee pursuant to the term, provisions, and conditions of the Act. The Notes shall be

designated _____ Grant Anticipation Note, Series 20____; shall be numbered serially from 1 upwards; shall be dated as of the date of issuance; shall be sold at not less than par value and accrued interest; and shall bear interest at a rate or rates not to exceed ____per cent (____%) per annum, and in no event shall the rate exceed the legal limit provided by law.

Section 2. The Notes shall mature not later than _____ (designate either three/3 or seven/7 years) after the date of issuance.

Section 3. The Notes shall be subject to redemption at the option of the Local Government, in whole or in part, at any time that the funds of the Agency Grant become available to the Local Government, at the principal amount and accrued interest to the date of redemption without a premium.

Section 4. The principal amount of the Notes shall be secured solely by the pledge of funds to be received pursuant to the Agency Grant, and the Local Government hereby pledges a portion or all of the Agency Grant in an amount at least equal to the principal amount of the Notes, being _____ Dollars (\$____), to the payment of the principal amount of the Notes. The Local Government shall have no authority to levy ad valorem taxes for the payment of the principal of the Notes.

Section 5. The interest on the Notes shall be direct general obligations of the Local Government and the Local Government hereby pledges its taxing power as to all taxable property in the Local Government for the purpose of providing funds for the payment of interest on the Notes. Provided, however, that the proceeds of any capital outlay notes, or bond anticipation notes shall not be applied to any payment of the Notes.

Section 6. The Notes shall be executed in the name of the Local Government and bear the signature of the chief executive officer of the Local Government and the signature of the _____ (Recording Officer) and shall be payable as to principal and interest at the office of the _____ (Recording Officer) of the Local Government or the paying agent duly appointed by the Local Government. Proceeds of the Notes shall be deposited with the _____ (Recording Officer) of the Local Government and shall be paid out for the purpose of providing funds in anticipation of the Agency Grant pursuant to this Resolution and as required by law.

Section 7. The Notes will be issued in fully registered form and that at all times during which any Note remains outstanding and unpaid, the Local Government or its agent shall keep or cause to be kept at its office a note register for the registration, exchange or transfer of the Notes. The notes register, if held by an agent of the Local Government, shall at all times be open for inspection by the Local Government or any duly authorized officer of the Local Government. Each Note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the registered owner of the Note in person or by the registered owner's attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent together with a written instrument of transfer satisfactory to the Local Government duly executed by the registered owner or the registered owner's duly authorized attorney. Upon the transfer of any such Note, the Local Government shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered Note. The Local Government shall not be obligated to make any such note transfer during the fifteen (15) days next preceding an interest payment date on the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Section 8. That, the Notes may be extended or renewed as permitted by law.

Section 9. The Notes shall be in substantially the form attached as Attachment 1 with only changes as are necessary or appropriate to comply with the requirements of the purchaser thereof.

Section 10. The Notes shall not be sold until receipt of written approval for the sale of the Notes from the Comptroller of the Treasury or the Comptroller's designee.

Section 11. After the sale of the Notes, and for each year that any of the Notes are outstanding, the Local Government shall prepare an annual budget and budget ordinance in a form consistent with accepted governmental standards and as approved by the Comptroller of the Treasury or Comptroller's designee. The budget shall be kept balanced during the life of the Notes and shall appropriate sufficient monies to pay all annual debt service. The annual budget and ordinance shall be submitted to the Comptroller of the Treasury or Comptroller's designee immediately upon its adoption; however, it shall not become the official budget for the fiscal year until such budget is approved by the Comptroller of the Treasury or Comptroller's Designee in accordance with Title 9, Chapter 21, Tennessee Code Annotated (the "Statutes") . If the Comptroller of the Treasury or Comptroller's Designee determines that the budget does not comply with the Statutes, the Governing Body shall adjust its estimates or make additional tax levies sufficient to comply with the Statutes, or as directed by the Comptroller of the Treasury or Comptroller's designee.

Section 12. That, all orders or resolutions in conflict with this Resolution in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage.

Duly passed and approved this _____ day of _____, 20____.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

Attachment 1
GRANT ANTICIPATION NOTE FORM

Registered Note No. _____

Registered \$ _____

(Name of Local Government)

of the State of Tennessee

Grant Anticipation Notes, Series 20_____

DATED: _____

INTEREST RATE: _____

MATURITY DATE: _____

Registered Owner: _____

Principal Sum: _____

The _____ (Governing Body) of _____ Tennessee (the Local Government) 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 note 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 to the Local Government or its agent, and to pay interest on the Principal Sum on _____ and thereafter on _____ of each year at the Interest Rate per annum (specified above), by check, draft, or warrant mailed to the Registered Owner at the address of the Registered Owner as it appears on the fifteenth (15th) calendar day of the month next preceding the applicable payment date in the note register maintained by or on behalf of the Local Government. Both principal of and interest on this note are payable at the office of the _____ of the Local Government or a paying agent duly appointed by the Local Government in lawful money of the United States of America.

This note is a direct obligation of the Local Government for the payment of which as to both principal and interest the full faith and credit of the Local Government is pledged.

This note is subject to redemption prior to its stated maturity in whole or in part at any time at the option of the Local Government upon payment of the principal amount of the note together with the interest accrued thereon to the date of redemption with a premium of _____ % of par value.

This note is issued under the authority of Parts I, IV, and V of Title 9, Chapter 21, Tennessee Code Annotated, and a Resolution duly adopted by the Governing Body of the Local Government meeting in session on the _____ day of _____, 20____ (the "Resolution") to provide funds in anticipation of the issuance of the bonds referenced in the Resolution.

This note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the Registered Owner of the note in person or by the Registered Owner's attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent of the note together with a written instrument of transfer satisfactory to the Local Government duly executed by the Registered Owner or the Registered Owner's duly authorized attorney but only in the manner as provided in the Resolution of the Local Government authorizing the issuance of this note and upon surrender hereof for cancellation. Upon the transfer of any such note, the Local Government or its agent shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered note. The Local Government shall not be obligated to make any such Note transfer during the fifteen (15) days next preceding an interest payment date on the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Title 9, Chapter 21, Section 117, Tennessee Code Annotated provides that this note and interest thereon are exempt from taxation by the State of Tennessee or by any county, municipality, or taxing district of the State, except for inheritance, transfer and estate taxes and except as otherwise provided under the laws of the State of Tennessee.

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 note exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State of Tennessee, and that the amount of this note, together with all other indebtedness of the Local Government, does not exceed any constitutional or statutory limitation thereon, and that this note is within every constitutional and statutory limitation.

IN WITNESS WHEREOF, the Governing Body of the Local Government has caused this note to be executed in the name of the Local Government by the signature of the _____, and attested by the signature of the _____ with the Seal of the Local Government affixed hereto or imprinted hereon, and this note to be dated as of the _____ day of 20____.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

ASSIGNMENT

Note No. _____

Amount: \$ _____

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

(Name and Address of assignee)

(Please indicate social security or other tax identifying number of assignee)

The within-mentioned note and hereby irrevocably constitutes and appoints _____
attorney-in-fact, to transfer the same on the note register in the office of the _____
_____ or the agent of the Local Government with full power of substitution in the premises.

Date: _____

Assignor: _____

Address: _____

Appendix 4

Tax Anticipation Note Resolution

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____, TENNESSEE,

AUTHORIZING THE ISSUANCE, SALE, AND PAYMENT OF

_____ REVENUE/TAX ANTICIPATION NOTES

NOT TO EXCEED \$ _____

WHEREAS, the Governing Body of _____, Tennessee, (the "Local Government") has determined that it is necessary and desirable to borrow a limited amount of funds to meet appropriations made for the _____ Fund (the "Fund") for the current fiscal year, being July 1, 20____, through June 30, 20____, inclusive, (the "Fiscal Year"), in anticipation of the collection of taxes and revenues for the Fund during the Fiscal Year; and

WHEREAS, under the provisions of Part I, IV, IV, and VIII of Title 9, Chapter 21, Tennessee Code Annotated (the "Act"), local governments in Tennessee are authorized to issue and sell revenue/ tax anticipation notes in amounts not exceeding sixty percent (60%) of the Fund appropriation for the Fiscal Year upon the approval of the Comptroller of the Treasury or Comptroller's Designee; and

WHEREAS, the Governing Body finds that it is advantageous to the Local Government to authorize the issuance and sale of revenue/tax anticipation notes;

NOW, THEREFORE, BE IT RESOLVED, by the Governing Body of the Local Government _____, as follows:

Section 1. For the purpose of providing funds to meet certain appropriations for the Fiscal Year, the chief executive officer of the Local Government is hereby authorized in accordance with the terms of this Resolution to issue sell revenue/tax anticipation notes in a principal amount not to exceed _____ Dollars (\$ _____) (the "Notes") upon approval of the Comptroller of the Treasury or Comptroller's designee pursuant to the terms, provisions, and conditions permitted by law. The Notes shall be designated "_____ Revenue/Tax Anticipation Notes, Series 20____"; shall be dated as of the date of issuance and shall bear interest at a rate or rates not to exceed _____ percent (_____%) per annum, and in no event shall the rate exceed the legal limit provided by law.

Section 2. That, the sum of the principal amount of the Notes, together with the principal amount or amounts of any prior revenue/ tax anticipation notes issued during the Fiscal Year, does not exceed sixty percent (60%) of the Fund appropriation for the Fiscal Year.

Section 3. That, the Notes may be renewed from time to time and money may be borrowed from time to time for the payment of any indebtedness evidenced by the Notes; provided, that the Notes and any renewal notes shall mature and be paid in full without renewal on or before the end of the Fiscal Year. If the Local Government overestimates the amount of taxes and revenue collected for the Fiscal Year and it becomes

impossible to retire the Notes and all renewal notes prior to the close of the Fiscal Year, then the Local Government shall apply to the Comptroller of the Treasury or Comptroller's designee within ten (10) days prior to the close of the Fiscal year for permission to issue funding bonds to cover the unpaid Notes in the manner provided by Title 9, Chapter 11 of Tennessee Code Annotated or as otherwise provided for in a manner approved by the Comptroller of the Treasury or Comptroller's designee.

Section 4. That, the Notes shall be secured solely by the receipt of taxes and revenues by the Fund during the Fiscal Year.

Section 5. That, the Notes shall be subject to redemption at the option of the Local government, in whole or in part, at any time, at the principal amount and accrued interest to the date of redemption without a premium.

Section 6. The Notes shall be executed in the name of the Local Government; shall bear the signature of the chief executive officer of the Local Government and the signature of the recording officer of the Local Government and shall be payable as to principal and interest at the office of the recording officer of the Local Government or at the office of the paying agent duly appointed by the Local Government. Proceeds of the Notes shall be deposited with the official designated by law as custodian of the funds. All proceeds shall be paid out for the purpose of meeting Fund appropriations made for the Fiscal Year in anticipation of the collection of revenues and taxes pursuant to this Resolution and as required by law.

Section 7. The Notes shall be in substantially the form attached as Attachment 1 with only changes as are necessary or appropriate to comply with the requirements of the purchaser thereof.

Section 8. The Notes shall be issued only after the receipt of the approval of the Comptroller of the Treasury or Comptroller's designee for the sale of the Notes.

Section 9. If any of the Notes shall remain unpaid at the end of the fiscal year of issue, then the unpaid Notes shall be retired from the funds of the Local Government or be converted into bonds pursuant to Chapter 11 of Title 9 of the Tennessee Code Annotated, or any other law, or be otherwise liquidated as approved by the Comptroller of the Treasury or Comptroller's designee.

Section 10. All orders or resolutions in conflict with this Resolution are hereby repealed insofar as such conflict exists and this Resolution shall become effective immediately upon its passage.

Duly passed and approved this _____ day of _____, 20__.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

Attachment 1
TAX/REVENUE ANTICIPATION NOTE FORM

Registered Note No. _____

Registered \$ _____

(Name of Local Government)

of the State of Tennessee

Tax/Revenue Anticipation Notes, Series 20__

DATED: _____

INTEREST RATE: _____

MATURITY DATE: _____

Registered Owner: _____

Principal Sum: _____

The _____ (Governing Body) of _____ Tennessee (the Local Government) 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 note 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 to the Local Government or its agent, and to pay interest on the Principal Sum on _____ and thereafter on _____ of each year at the Interest Rate per annum (specified above), by check, draft, or warrant mailed to the Registered Owner at the address of the Registered Owner as it appears on the fifteenth (15th) calendar day of the month next preceding the applicable payment date in the note register maintained by or on behalf of the Local Government. Both principal of and interest on this note are payable at the office of the _____ of the Local Government or a paying agent duly appointed by the Local Government in lawful money of the United States of America.

This note is a direct obligation of the Local Government for the payment of which as to both principal and interest the full faith and credit of the Local Government is pledged.

This note is subject to redemption prior to its stated maturity in whole or in part at any time at the option of the Local Government upon payment of the principal amount of the note together with the interest accrued thereon to the date of redemption with a premium of _____ % of par value.

This note is issued under the authority of Parts I, IV, and V of Title 9, Chapter 21, Tennessee Code Annotated, and a Resolution duly adopted by the Governing Body of the Local Government meeting in session on the _____ day of _____, 20____ (the "Resolution") to provide funds in anticipation of the issuance of the bonds referenced in the Resolution.

This note shall have the qualities and incidents of a negotiable instrument and shall be transferable only upon the note register kept by the Local Government or its agent, by the Registered Owner of the note in person or by the Registered Owner's attorney duly authorized in writing, upon presentation and surrender to the Local Government or its agent of the note together with a written instrument of transfer satisfactory to the Local Government duly executed by the Registered Owner or the Registered Owner's duly authorized attorney but only in the manner as provided in the Resolution of the Local Government authorizing the issuance of this note and upon surrender hereof for cancellation. Upon the transfer of any such note, the Local Government or its agent shall issue in the name of the transferee a new registered note or notes of the same aggregate principal amount and maturity as the surrendered note. The Local Government shall not be obligated to make any such Note transfer during the fifteen (15) days next preceding an interest payment date on the Notes or, in the case of any redemption of the Notes, during the forty-five (45) days next preceding the date of redemption.

Title 9, Chapter 21, Section 117, Tennessee Code Annotated provides that this note and interest thereon are exempt from taxation by the State of Tennessee or by any county, municipality, or taxing district of the State, except for inheritance, transfer and estate taxes and except as otherwise provided under the laws of the State of Tennessee.

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 note exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State of Tennessee, and that the amount of this note, together with all other indebtedness of the Local Government, does not exceed any constitutional or statutory limitation thereon, and that this note is within every constitutional and statutory limitation.

IN WITNESS WHEREOF, the of the Local Government has caused this note to be executed in the name of the Local Government by the signature of the _____, and attested by the signature of the _____ with the Seal of the Local Government affixed hereto or imprinted hereon, and this note to be dated as of the _____ day of 20_____.

(Local Government Chief Executive)

ATTESTED:

(Recording Officer)

ASSIGNMENT

Note No. _____

Amount: \$ _____

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

(Name and Address of assignee)

(Please indicate social security or other tax identifying number of assignee)

The within-mentioned note and hereby irrevocably constitutes and appoints _____
attorney-in-fact, to transfer the same on the note register in the office of the _____
_____ or the agent of the Local Government with full power of substitution in the premises.

Date: _____

Assignor: _____

Address: _____

Appendix 5

Informal Bid Form

[Enter Name of Local Government], TENNESSEE

NOT TO EXCEED [Amount Requested]

GENERAL OBLIGATION CAPITAL OUTLAY NOTE, SERIES 20__

As required by Title 9, Chapter 21, Part 609, Tenn. Code Ann., this information is being submitted to the Comptroller’s Division of Local Government Finance to request approval to issue the above notes by the informal bid process based upon the following:

- 1. The informal bid process is feasible.
2. The informal bid process is in the best interest of our local government.
3. Our local government will be able to amortize the notes together with all other outstanding obligations.
4. Financial institutions were contacted by telephone or in writing and presented our local government with the interest rates as detailed below (at least three should be contacted, if possible):

Table with 2 columns: Financial Institution/Lender, Interest Rate Quoted. Includes five rows of blank lines for data entry.

Issuance Costs

_____ There are no issuance costs associated with these notes.

_____ There are issuance costs, and they are itemized on the attached schedule:

Signed: _____

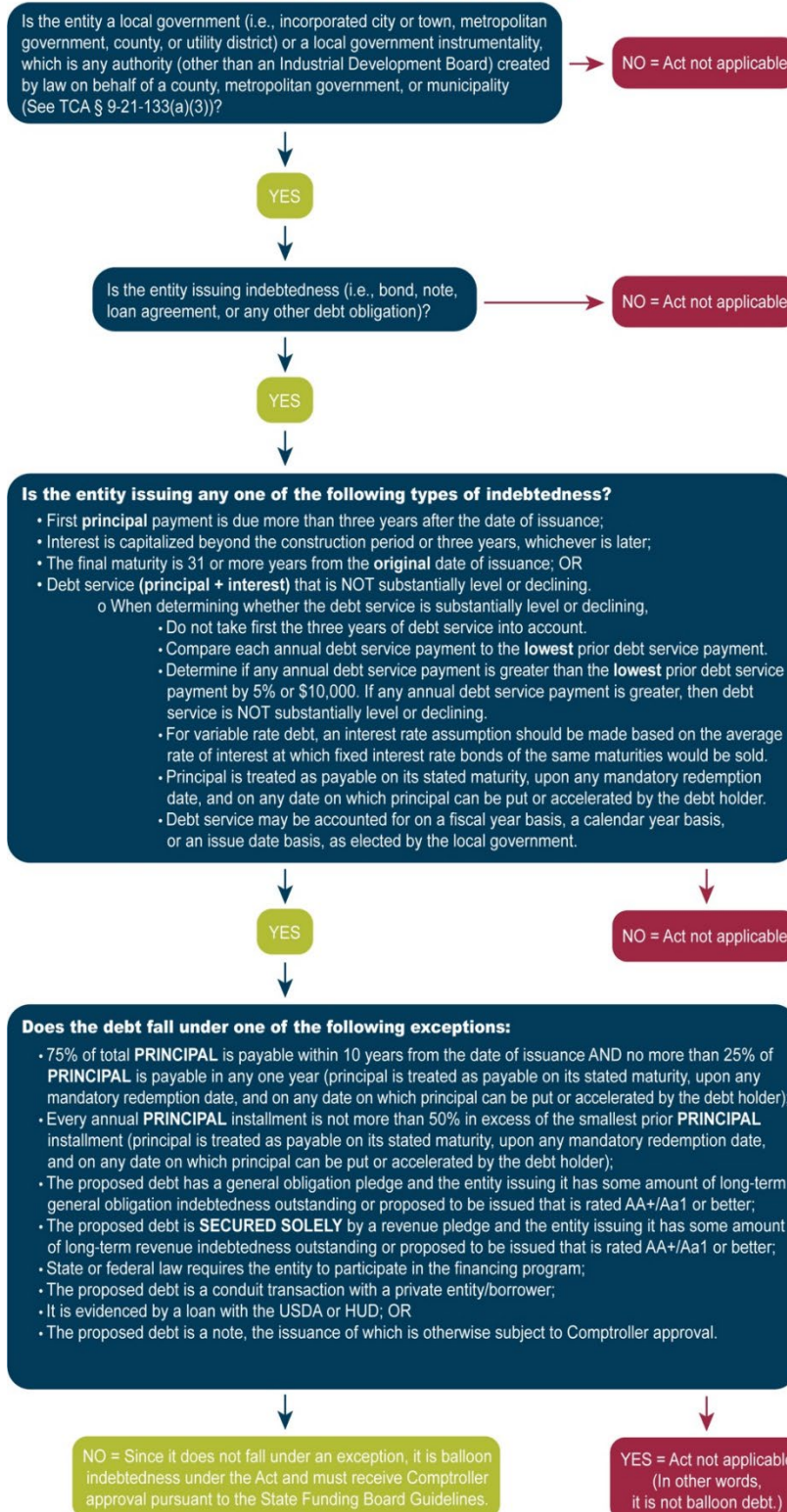
Name and Title (printed): _____

Attachment 1
Schedule of Informal Bid Issuance Costs

Fee	Lender 1	Lender 2	Lender 3	Lender 4	Lender 5
Financial Advisor					
Legal Counsel					
Registration					
Paying Agent					
Rating Agency					
Underwriter					
Remarketing Agent					
Advertising					
Other					
Total					

Appendix 6 Balloon Debt Law Flowchart

Tennessee Code Annotated § 9-21-133





TENNESSEE BUDGET MANUAL FOR LOCAL GOVERNMENTS



Approved by the State Funding Board

June 2021

(Will change to July 2023)

Jason E. Mumpower
Comptroller of the Treasury



**DIVISION OF
LOCAL GOVERNMENT FINANCE**

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Purpose

The purpose of the Tennessee Budget Manual for Local Governments (the “Manual”) is to provide uniform guidance for the annual budget process in Tennessee’s local governments. The Manual is not designed to be all-inclusive but to provide guidance and requirements related to specific budget issues with an emphasis on areas of oversight by the Comptroller of the Treasury.

The Manual is divided into the following areas:

- State Oversight and Support – Sections 2 and 3
- Budget Basics – Sections 4 and 5
- The Budget Process – Section 6
- Best Practices – Section 7

The Manual, as approved by the State Funding Board on **June 15, 2021**, is the **first** edition issued pursuant to Tenn. Code Ann. §§ 4-3-305 and 9-21-403.

Applicability

Any reference to the term “local government” applies to the following entities:

- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Municipal Energy Authorities
- Water and Wastewater Treatment Authorities
- Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement.



Section 2 – Comptroller Oversight and Support

State legislators recognize the importance of financial stability and resilience for Tennessee’s local governments and have passed laws that strengthen financial accountability for public dollars. Some of those laws specifically address budgetary oversight and support from the Comptroller of the Treasury.

Forms, Procedures, and Manuals

The Comptroller’s Office has authority to prescribe forms and procedures and provide guidance manuals for the preparation of annual budgets by local governments (Tenn. Code Ann. § 4-3-305).

The Comptroller’s Office is also responsible for providing guidance on the form of the budget, including supplemental schedules, as necessary, to demonstrate local governments have adequate cash to meet their current obligations, including principal and interest, as applicable. See Tenn. Code Ann. §§ [7-36-113](#), 7-82-501, 9-21-403, 68-221-611, and 68-221-1306.

Balanced Budget Oversight for Local Governments

Adopting a balanced budget is the responsibility of the governing body; however, if the governing body fails to fulfill this responsibility, our Office has the authority to take measures to ensure a local government pays its obligations, including principal and interest requirements. Pursuant to Tenn. Code Ann. § 9-21-403, the Comptroller has the authority to direct a local government to balance its budget by adjusting estimates to reduce spending or by raising property taxes ~~or other revenues~~ to increase available cash [to meet its obligations](#).

A local government may be subject to other requirements of the Comptroller as part of this oversight, including, but not limited to, the following:

- implementation of a corrective action plan;
- requesting approval from the Comptroller prior to disbursement of funds;
- building and maintaining cash balances sufficient for operations and contingencies;
- additional reviews, audits, and inquiries; and
- additional periodic reporting requirements.

Annual Budget Oversight

Pursuant to state law, local officials are required to adopt a balanced annual budget and submit the budget to our Office for approval. The annual budget review and approval process can be divided into three basic steps:

✓ STEP ONE – Submission Requirements for Approval

Due Date

Prior to the beginning of each fiscal year, a local government should adopt a budget that meets all legal and program requirements and email it, with the other required documents described below, to the Division of Local Government Finance at LGF@cot.tn.gov within 15 days after adoption. [A budget calendar should be followed during the planning and adoption process.](#)

If a budget is not submitted to our Office within 2 months of the beginning of the fiscal year, [the budget cannot be approved and](#) your local government may not issue debt or financing obligations ~~until our Office has approved the budget, or as otherwise provided for in a manner approved by our Office.~~ In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ [7-36-113](#), 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Required Submission Information – Municipalities, Counties, and Metropolitan Governments

1. Cover letter on the local government's letterhead.
 - a. Complete contact information should be included. At a minimum, email addresses for the following individuals must be identified:
 - i. Mayor or County Executive
 - ii. City Manager, as applicable
 - iii. Finance Director or equivalent position
2. Signed/certified copy of the appropriation act and tax levy (ordinance or resolution).
3. Detailed budgets for all funds, including proprietary/enterprise funds and school funds, as applicable.
4. Copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government. Refer to [Section 6](#) on page 18 for guidance in making this determination.
5. Budget Summary Schedule.
6. Cash Flow Forecast Schedules for:
 - a. *Operating funds* with a budgeted ending cash balance of less than 15% of annual expenditures.
 - b. *Operating funds* that reflected an ending cash balance of less than 15% of annual expenditures in the prior year's audit.
 - c. Any fund that received proceeds from a tax and revenue anticipation note (TRAN) for the past two consecutive years.
 - d. Any fund as requested by our Office during our review of the annual budget.

- e. All operating funds if the prior year's audit has not been issued and is late.

Operating Funds are defined as funds that account for expenditures/expenses that are recurring or day-to-day, such as salaries, benefits, utilities, etc. The General Fund and General Purpose School Fund will always meet the definition of an operating fund. Special Revenue Funds that meet the definition of an operating fund but nonetheless maintain a low cash balance due to the nature of the fund are excluded. For example, a special revenue sanitation fund that receives General Fund transfers to subsidize the fund. In that situation, the cash flow will be addressed in the analysis for the General Fund.

7. Schedule of Outstanding Debt and Budgeted Debt Service, as applicable.
8. Revenue forecasts for property and sales tax for the budget year, as applicable.

A Microsoft Excel template that includes the required schedules referred to above is available on the Comptroller of the Treasury's website at: tncot.cc/budget.

Required Submission Information – Utility Districts, [Municipal Energy Authorities](#), Water and Wastewater Treatment Authorities, and Other Water and Wastewater Treatment Entities Created by Interlocal Agreement.

Each year your local government is required to submit the following information electronically to the Division of Local Government Finance at LGF@cot.tn.gov:

1. Cover letter on the local government's letterhead.
 - a. Complete contact information should be included. At a minimum, email addresses for the following individuals must be identified:
 - i. Chairman or President of the Board
 - ii. General Manager
2. Resolution adopting the budget.
 - a. The governing board must take official action by resolution to adopt its annual budget. ~~Our Office recommends adoption of a resolution as the board's action and has included a~~ An example resolution may be found on our website.
3. Budget document that identifies all anticipated revenues by source and all anticipated expenses by type of expense. If the local government has multiple funds, a budget for each fund must be submitted.
4. Schedule of Outstanding Debt and Budgeted Debt Service, as applicable.

Further information concerning budgeting requirements, a budget submission checklist, and a model budget resolution may be found on the Comptroller of the Treasury's website at tncot.cc/budget.

✓ STEP TWO – Approval by the Comptroller's Office

1. The budget will be reviewed within 30 days of receipt by the Division of Local Government Finance. Budgets should be submitted as one document. If the budget submission is incomplete, the 30-day review period will not begin until the needed information is received.
2. With regard to programs included in the budget, such as education, roads, and corrections, we do not make any attempt to determine that the local government has complied with specific program statutes or guidelines or with any financing requirements prescribed by any state or federal agency. Additionally, local officials are required to ensure the budget remains balanced throughout the fiscal year and that all maintenance of effort requirements are met—our Office does not review or approve any maintenance of effort programs.
3. Once the review process is complete, your local government will receive a letter via e-mail from the ~~Director of the~~ Division of Local Government Finance indicating the results of our review as either: approved, conditionally approved, or not approved.

Approved: An approved budget means that based upon our review, it was determined that projected revenues and other available funds are sufficient to meet anticipated expenditures (or expenses). An approved budget may still result in recommendations to your local government. An example recommendation includes developing a process to monitor the budget throughout the fiscal year.

Conditionally Approved: A conditional approval results when there is some required action by your governing body that must be fulfilled before the budget can be approved. An example conditional approval includes when our Office requires a budget amendment to legally appropriate principal and interest payments that were inadvertently omitted from the budget ordinance or resolution. Your local government will have 90 days after our letter is issued to meet the condition. If the condition for approval is not met within that timeframe, the budget will be not approved.

Not Approved: A budget that is not approved may be the result of a delinquent budget, a delinquent audit, or continued noncompliance issues while under the oversight of the ~~Water & Wastewater Financing Board or the Utility Management Review~~ Tennessee Board of Utility Regulation, noncompliance with the Certified Municipal Finance Officer Act, noncompliance with statutorily-required utility training, or failure to meet conditions for approval. State legislators have recognized the importance of having an approved budget by passing legislation specifying that if your budget is not approved, your local government may not issue debt or financing obligations ~~until our Office has approved the budget or as otherwise provided for in a manner approved by our Office.~~ In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

✓ **STEP THREE – Requirements after Approval**

1. The budget is based upon estimates, and it may become apparent during the monitoring of the budget that an amendment is necessary. Budget amendments must be sent to our Office for formal acknowledgement after they are approved by the local governing body. Our Office

only requires your local government to send budget amendments that impact total appropriations for an organizational unit (or department). Refer to [Section 6](#) for a description of the legal level of budgetary control and a discussion on budget amendments.

2. If there are conditions for approval, those will have to be met. If we make recommendations, those should be followed. If you have any questions related to the items addressed in the review letter, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts.
3. If our review of the budget results in concerns about the local government's financial health, we may continue to work closely with local officials to help them restore stability to their finances and develop policies and procedures to support a strong financial future.

Annual Budget Certificate

To be effective, a budget should be adopted prior to the beginning of the fiscal year. The budget should also be based on reliable estimates, be structurally balanced, provide for cash liquidity, allow for adequate reserves, be monitored throughout the year, and be amended, as necessary. Local officials that adopt budgets meeting the following specific criteria are awarded an annual certificate from the Comptroller of the Treasury:

- The budget was adopted on or before the fiscal year end;
- The budget was filed with the Division of Local Government Finance within 15 days of adoption;
- No issues of concern were raised during our review of the budget; and
- The local government is not currently under the oversight of the [Tennessee Board of Utility Regulation](#) ~~Water & Wastewater Financing Board or Utility Management Review Board~~.

We congratulate local officials who have been awarded a budget certificate for a job well done. The names of the most recent recipients of the Annual Budget Certificate are posted on our website at: tncot.cc/budgetcertificates.

Online Resources

To help support your local government in the budget process, we developed online instructional videos on the following topics:

- Basic Revenue Estimating
- Annual Budget Memorandum
- Cover Letter
- Budget Summary Schedule
- Schedule of Outstanding Debt
- Municipal Budget Ordinance
- Cash Flow Forecast Schedule
- Basic Cash Flow Estimating

We will continue to expand our instructional video library. To view these videos, please visit our website at: tncot.cc/budget.

We also have helpful schedules and examples available on our website for your local government to utilize during the budget process. If you have any questions related to our online resources, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts.



Section 3 – Oversight and Support from Other State Agencies and Boards

Tennessee ~~Board of Utility Regulation~~ ~~Utility Boards~~

The Comptroller’s Division of Local Government Finance serves as staff to the ~~Tennessee Board of Utility Regulation (TBOUR)~~ ~~Water & Wastewater Financing Board (WWFB)~~ and the ~~Utility Management Review Board (UMRB)~~. Information about ~~the utility boards~~ ~~TBOUR~~ is available on the Comptroller’s website: www.comptroller.tn.gov.

~~The WWFB/TBOUR~~ supports municipalities, counties, ~~districts~~, and ~~treatment~~ authorities that operate water, ~~and sewer, and natural gas~~ enterprises by ensuring that they are financially self-supporting. The Board also establishes the parameters for water accountability.

~~The UMRB supports natural gas, water, and wastewater public utility districts by ensuring that they are financially self-supporting.~~ The Board addresses certain complaints by utility ~~district~~ customers, approves or disapproves the creation of new utility districts, ~~approves or disapproves the purchase, development, acquisition, or construction of a new water or wastewater system by a city or county, requires mergers and consolidations subject to statutory limitations,~~ and conducts ouster proceedings for utility district commissioners related to misconduct, neglect, or training. The Board also establishes the parameters for water accountability.

Tennessee Department of Education

The Tennessee Department of Education’s Office of Local Finance works directly with local school systems. The Office of Local Finance provides budgetary oversight and guidance, and local governments with school systems are responsible for complying with those requirements. More information is available at: www.tn.gov/education.

Tennessee Department of Treasury

The Tennessee Department of Treasury provides oversight to local governments that participate in the Tennessee Consolidated Retirement System (TCRS) as well as those that have defined benefit pension plans outside of TCRS. The State Treasurer also operates the Local Government Investment Pool (LGIP) and has certain administrative responsibility for the Collateral Pool for Public Deposits. More information is available at <https://treasury.tn.gov>.

County Technical Assistance Service (CTAS)

CTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed county and metropolitan officials and

finance directors. CTAS assists county governments with the budget process in the areas of budget preparation, policy, training, and guidance. CTAS partners with the Comptroller's Office to provide the training and testing program for the Certified County Finance Officer (CCFO) designation. Resource information is available at: www.ctas.tennessee.edu.

Municipal Technical Advisory Service (MTAS)

MTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed municipal and metropolitan government officials and finance directors. MTAS assists with the budget process in the areas of budget preparation, policy, training, and guidance. MTAS provides the training and testing program for the Certified Municipal Finance Officer (CMFO) designation. Resource information is available at: www.mtas.tennessee.edu.

Tennessee Association of Utility Districts (TAUD)

TAUD provides Tennessee utility systems with training, industry information and publications, and legislative updates. TAUD's commissioner manual has budget guidance, and they also teach classes on the budget process. Information and resources regarding TAUD is available at: www.taud.org.

Tennessee Emergency Communications Board (TECB)

The TECB is a statutorily created board that assists emergency communication districts, also known as E-911 districts, in the areas of management, operations, and accountability. The TECB ensures emergency communication districts are financially self-supporting pursuant to specific criteria defined by state law. Information about the TECB is available on the Tennessee Department of Commerce and Insurance's website: <https://www.tn.gov/commerce/emergency-communications.html>

Section 4 – Budget Terminology, Definitions, and Concepts

Budget

The budget is an annually adopted document that outlines the expected revenues and expenditures (expenses) for each fund. Budgets should be structurally balanced, realistic, and contain all debt service payments for governmental funds and interest expense and depreciation expense for proprietary funds. All revenue estimates should be meaningfully forecasted. The budget is used throughout the fiscal year and amended when necessary.

A budget does the following:

- establishes policies;
- identifies revenues and other resources to support planned spending;
- appropriates monies, thus authorizing spending (expenditures);
- provides accountability to citizens or customers; and
- provides a means of control.

Appropriated Budget vs. Non-appropriated Budget

Appropriated budgets are governed by state and local laws and create spending authority limits that are legally binding. An appropriation bill, ordinance, or resolution is signed into law.

Non-appropriated budgets are approved in a manner authorized by state or local laws and not subject to appropriation. For example, utility funds budgeted pursuant to the 1982 Budget Law. [In this situation, we recommend the use of the budget resolution template available on our website: \[tncot.cc/budget\]\(http://tncot.cc/budget\).](#)

Municipalities, Counties, and Metropolitan Governments

State laws require appropriated budgets for the general fund, special revenue fund(s), and debt service fund(s).

State laws differ for proprietary funds. Municipalities that have adopted the General Law Modified City Manager – Council Charter pursuant to Tenn. Code Ann. § 6-35-304(a) are legally required to include proprietary funds as part of the appropriation ordinance. Other municipal forms of government, county governments, and metro governments have no general law requirement to legally appropriate the operations of a proprietary fund. Budget policies and procedures should address how budgets for proprietary funds will be approved and monitored for municipalities, counties, and metro

governments that have no legal requirement to adopt a proprietary fund budget as part of its appropriation ordinance or resolution.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities

Utility districts, municipal energy authorities, and water and wastewater treatment authorities follow proprietary fund accounting and are required by state law to adopt an annual ~~appropriated~~ budget.

Balanced Budget Requirements

The following statutes require local governments to adopt balanced budgets:

- Tenn. Code Ann. § 5-12-110(b)&(c) – 1957 Act Counties
- § 5-12-210(d) – 1993 Act Counties
- § 5-21-110(d)(5) and 112 – 1981 Act Counties
- § 6-22-124 – City Manager-Commission Charter
- § 6-56-205 – Municipal Budget Law of 1982
- § 7-2-108(a)(15) – Metropolitan Governments – Urban Services District
- § 7-2-108(c)(2) – Metropolitan Governments – Each Special Service District
- § 7-82-501 – Utility Districts
- § 9-21-403 – Local Governments
- § 68-221-611 – Water and Wastewater Treatment Authority
- § 68-221-1306 – Regional Water and Wastewater Treatment Authority

Chart of Accounts

A standardized chart of accounts should be used for the budget, accounting records, and financial statements. ~~MTAS has developed a chart of accounts that municipalities can utilize: www.mtas.tennessee.edu/reference/chart-accounts.~~ The Division of Local Government Audit within the Comptroller's Office maintains a uniform chart of accounts for counties and municipalities governments: www.tncot.cc/chart. All counties must use this uniform chart of accounts except for the Metropolitan Government of Nashville and Davidson County, Knox County, Hamilton County, and Shelby County. Municipalities are encouraged, but not required to use the uniform chart of accounts.

Fund Types and Budget Requirements

Certain fund types are legally required to be appropriated, such as the general fund, debt service funds, and special revenue funds. However, other fund types, such as a proprietary funds, fiduciary funds, or trust funds, may not be subject to appropriation, depending upon the laws that apply to your local government.

Legal Authority

When determining what legal authority governs your local government's budget document, the general principle of law that will apply is: if your unique general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies.

This section addresses laws that govern the general budget process for your local government. For a discussion of laws regarding budgetary oversight by the Comptroller of the Treasury, refer to [Section 2](#) on page 5.

Municipalities

When determining what laws govern the budget process for your municipality, you should begin with referencing the Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-201 et seq.).

Next, you will need to understand the requirements of your municipality's form of government and how it relates to the Municipal Budget Law of 1982.

There are five different forms of government for municipalities in the state of Tennessee. Three of these are general law as authorized by the following state statutes:

- General Law Mayor Aldermanic Charter (Tenn. Code Ann. § 6-1-101 et seq.)
- General Law City Manager Commission Charter (Tenn. Code Ann. § 6-18-101 et seq.)
- General Law Modified City Manager Council Charter (Tenn. Code Ann. § 6-30-101 et seq.)
- Home Rule Charter
- Private Act Charter

If your charter does not mandate expenditure and revenue information in the annual budget ordinance that is at least as detailed as that required by the Municipal Budget Law of 1982, the 1982 budget law will apply.

Last, municipalities should also be aware of separate ordinances that have been adopted that will govern the annual budget process.

As a general principle of law, if your municipality's general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies. Advice from legal counsel may be necessary to determine which specific budget laws apply for your municipality.

Counties

When determining what laws govern the budget process for your county, first you will need to identify the law(s) adopted by your county's governing body that are specific to the budget process. There are basically six laws, and four of these laws are found in state general law statutes. A county is authorized to perform its budgeting function under the following:

- General Law (Tenn. Code Ann. § 5-9-401, et seq.)
- Local Option Law 1957 Fiscal Control Act (Tenn. Code Ann. § 5-12-101 et seq.)
- Local Option Law 1981 Financial Management Act (Tenn. Code Ann. § 5-21-101 et seq.)
- Local Option Law 1993 Budget Law (Tenn. Code Ann. § 5-12-201 et seq.)
- Home Rule (Charter Government)
- Private Act

Next, you will need to determine if your county has enacted private acts that are more stringent than the basic requirements of the general or local option budget laws adopted by your county. In this situation, the more stringent law will apply. Likewise, there may be requirements under the general law that exceed specific home rule and private act requirements for a respective county. In this case, the general law requirement should be followed. Advice from legal counsel may be necessary to determine which specific budget laws apply for your county.

Metropolitan Governments

Budgetary requirements for metropolitan governments are governed by general state law, private act, and/or local ordinance or resolution. Because the general laws for metropolitan governments do not address some of the basic budget requirements, such as adoption date, continuation authority, amendments, etc., local officials should ensure key budget policies are clarified in the charter or ordinance. Advice from legal counsel may be necessary to determine the specific budget laws that apply for your government.

Utility Districts, Municipal Energy Authorities, & Water and Wastewater Treatment Authorities

When determining what laws govern the budget process for utility districts and authorities, local officials should begin with how your local government was originally created. General state law provides authority for the incorporation of utility districts, municipal energy authorities, and water and wastewater authorities. The incorporation of utility districts is subject to approval by the Utility Management Review Board Tennessee Board of Utility Regulation. The different charter forms ~~for utility districts and wastewater treatment authorities~~ in the state of Tennessee are:

- General Utility District Law of 1937 (Tenn. Code Ann. § ~~68-221-601~~7-82-101 et seq.)
- Municipal Energy Authority Act (Tenn. Code Ann. § 7-36-101 et seq.)
- Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-601 et seq.)
- Regional Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-1301 et seq.)
- Private Act Charter

The budget process will be governed by the state general laws referred to above as well as any private act. As a general principle of law, utility districts and authorities created by private act will need to follow any general law budget requirements that exceed the private act requirements. Advice from legal counsel may be necessary to determine which specific budget laws apply for your government.

Other Entities

Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, [municipal energy authority](#), or water and wastewater authority, such as joint ventures created by an interlocal agreement, should follow budget requirements pursuant to their creation authority. If creation documents do not address budget policy, the entity should follow the budget requirements of the creating entity or entities.

Budgeting is a broadly defined process that has political, planning, financial, communication, and managerial dimensions.

There are four basic phases to the budget cycle:

- Preparation
- Adoption
- Execution
- Oversight

This Section highlights some of the aspects related to the different elements in the budget process, from initial planning to adoption, execution, and managing the budget throughout the fiscal year. It is not intended to be comprehensive. If a local government has not developed policies and procedures to support the budget cycle for your local government, we recommend municipalities, counties, and metropolitan governments work with their MTAS or CTAS representative for assistance. Additionally, we recommend utility districts and authorities work with TAUD for assistance.

Preparation

Budget preparation begins months before the budget is adopted and approved. Preparation involves a review of policy and benchmarks established by your local government, collaboration with other departments, budget committee meetings, publication requirements, and other actions. Preparation is essential to the budget process because it lays the groundwork. [Appendix 1](#) includes an outline of key budget issues that may assist your local government in developing or updating budget policies and procedures. This outline is included as a resource and not a mandate.

Policies and Procedures

The governing body serves in a fiduciary capacity as they manage the finances and assets of the local government they serve. When preparing the budget, local officials are governed by internal and external laws and regulations that help ensure the responsible management of public dollars. Before the budget process begins, local officials should already have in place foundational policies to ensure the budget supports both the short-term and long-term financial health of their local government.

As you begin to prepare your budget, one of the first steps will be to review established policies that define the budget process. Such policies should include the following:

- Budget calendar;
- Cash flow management;
- Revenue forecasting and expenditure/expense estimation;
- Minimum fund balance levels;
- Contingency spending plan;
- Long-term capital planning;
- Program and service goals (public safety, sanitation, utilities, streets, schools);
- Legal spending requirements, such as maintenance of effort;
- Department head responsibilities in the budget process;
- Rainy day fund levels; and
- Structurally balanced budgeting.

Refer to [Section 7](#) on page 26 for recommended best practices.

Component Units, Joint Ventures, and Similar Entities

As part of the budget preparation process, you should identify entities that have been created by your local government that function to support the local government and its citizens. For example, two neighboring municipalities may create a joint venture to provide water service to its citizens. The key issue is whether there is a financial benefit or burden that exists between your local government and the other entity that could have an impact to your budget.

STEP ONE Identify the entities. One source for this information is the notes to the financial statements in your annual financial audit report.

STEP TWO For each identified entity, determine the nature of the financial relationship to your local government, if any. Is your local government:

- Responsible for providing ongoing financial assistance;
- Contingently responsible for paying debt in the case of default or has guaranteed the entity's debt in some other manner;
- Required to fund any deficits;
- Responsible for the review and approval of the entity's budget;
- Reliant on revenue from the entity; or
- Responsible for the financial oversight or governance of the entity such that local officials should have a process of intentional review of certain financial information of the entity?

STEP THREE If an entity meets any of the above criteria, develop a process to receive and review their budget as part of your annual budget process.

STEP FOUR Send a copy of the respective budget with your annual budget submission to the Division of Local Government Finance.

Revenue Forecasting and Expenditure Estimating

Forecasting revenues and estimating expenditures (or expenses) is integral to budget preparation. Estimates should be both reliable and realistic. Our Office has developed an instructional video related to estimating that is available on our website: tncot.cc/budget. Municipalities, counties, and metropolitan governments can also receive assistance from their respective MTAS or CTAS consultant.

Local governments should not delay the budget process during a reappraisal year. The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and State Board of Equalization to address the situation.

Adoption

The budget adoption and approval process may result in changes to the proposed budget. Several key areas related to the adoption process are discussed below.

Timely Adoption – Budget Calendar

Timely budget adoption is foundational to the budget process and ensures your local government begins the fiscal year with a sound financial spending plan. Accordingly, your local government should have a formal timeline for the budget process. We have developed budget calendar that includes key dates in [Appendix 2](#). We recommend that you add to the budget calendar any specific needs related to the size and structure of your local government. Both state and local laws govern the budget calendar.

Continuation/Extension

For your budget document to be relevant, timely adoption is essential; however, state law recognizes there will be circumstances when the governing body is not able to adopt the budget prior to the beginning of the fiscal year. Nevertheless, if the annual adopted budget is not submitted to our Office within two months of the beginning of the fiscal year, ~~the budget cannot be approved and your local government may not issue debt or financing obligations until our Office has approved the budget or as otherwise provided for in a manner approved by our Office.~~ In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ [7-36-113](#), 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Counties

Tennessee law gives authority for certain counties to operate on a continuation budget until August 31, or a continuation budget extension until September 30. Refer to [Appendix 3](#) to determine if this applies to your county.

A September 30 continuation budget extension is allowed under extraordinary circumstances and must be approved by the Comptroller of the Treasury. For more information regarding a request for approval, refer to [Appendix 3](#).

Municipalities

Pursuant to the Municipal Budget Law of 1982, if a budget ordinance is not adopted prior to the beginning of the fiscal year, the appropriations for the last fiscal year become the appropriations for the next fiscal year, until the adoption of a new budget ordinance (Tenn. Code Ann. § 6-56-210). If your municipality's general law, home rule, or private act charter is more restrictive, you must follow the requirements of your charter.

Metropolitan Governments

General laws for metropolitan governments do not specifically address budget continuations and/or extensions. You should ensure that you have adopted a private act to address the legal budget process, including, but not limited to, budget continuations and extensions.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities

State law does not provide for an extension or continuation for utility districts, municipal energy authorities, or water and wastewater authorities.

Legal Form of the Annual Budget Document

A budget resolution or ordinance is the budget document used by local governments. A legally-adopted budget provides spending authority for the general operations of counties, municipalities, and metropolitan governments. When a local government expends more than legally appropriated, they are in noncompliance with state law. For utility districts and authorities, the budget is legally required to be adopted, but it is not a legal document in the sense of an appropriated budget. Refer to [Section 4](#) on page 12 for an explanation of the difference between appropriated and non-appropriated budgets. Our website has example budget documents for use by your local government: tncot.cc/budget.

Balanced Budget

Budgets must be balanced when adopted, remain balanced throughout the fiscal year, and be sustainable going forward. Estimated expenditures and other financing uses (or expenses) should not exceed estimated revenue, other financing sources, and beginning unrestricted fund balance (or net position). A process should be in place to actively monitor the budget throughout the budget year and to make any necessary budget amendments to maintain a balanced budget, including paying all debt service. [Section 4](#) on page 13 includes a listing of state laws that require a balanced budget.

A budget is structurally balanced when recurring revenues are budgeted to pay for recurring expenditures (or expenses). A structurally unbalanced budget is often a sign of financial distress. If your local government plans to adopt a structurally unbalanced budget, you should contact the Analyst in the Comptroller's Division of Local Government Finance who is responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

Legal Level of Budgetary Control/Spending Authority

The legal level of budgetary control refers to the level of detail at which the governing body appropriates resources. Management can reassign expenditures or expenses without approval of the governing body for items below the legal level of budgetary control. For example, when the budgetary control is at the organizational or department level, any increase in appropriations for the police department will require a budget amendment by the governing body; however, changes between object

level expenditures, such as salaries, supplies, or utilities that are within the organizational or department level, do not require legal action by the governing body. Requirements of state law vary depending upon your form of government. Utility districts, [municipal energy authorities](#), and water and wastewater authorities are required to identify anticipated revenues by source and anticipated expenses by type of expense.

Budgetary Basis (Legal Basis of Accounting)

The budgetary basis is the method used to determine when revenues and expenditures (expenses) are recognized for budgetary purposes. The annual budget is required to be on the same basis of accounting as required by generally accepted accounting principles (Tenn. Code Ann. § 9-21-403). For smaller governments that maintain their accounting records on the cash basis, a budgetary cash basis is acceptable when the cash basis does not materially differ from the budget on the modified-accrual basis. Local governments may also utilize the method of reconciling between two different bases of accounting in the budget document. Having the same budgetary basis used for accounting and reporting purposes helps the governing body, investors, the public, and other stakeholders better understand and analyze budget to actual results.

Capital Budgets

The capital budget provides the basis for control of capital expenditures.. This budget should correspond with the capital improvement plan. The capital budget is related to long term nonrecurring spending.

The capital improvement program presents estimates of revenue and capital outlay expenditures for a period of several years—five years is recommended. The proposed means to finance capital projects should be clearly identified in the capital improvement program.

Both MTAS and CTAS have online resources and can assist municipalities, counties, and metropolitan governments in the preparation of a capital budget and capital improvement program.

School Budgets

County, municipal, and metropolitan governments with school systems are required to follow the requirements of the Tennessee Department of Education when preparing their budget. Both MTAS and CTAS also have information available on their websites regarding requirements for school budgets. Some of the key issues for school budgets involve the following:

- The budget must be balanced.
- The budget must agree with the budget ordinance or resolution adopted by the governing body.
- The budget must include beginning and ending unassigned fund balance information.
- Both summary and detailed budget information should be prepared.
- Annual principal and interest information should be clearly identified in the budget, as applicable.
- Pursuant to state law, the governing body's authority is limited to modifying the total amount of the school budget ~~and only in an amount that does not exceed the total sum requested by~~

~~the board of education from current revenues of the county or municipal government.~~ The governing body has no other authority to modify or delete any item of the school budget. The governing body must still approve the school budget in total (Tenn. Code Ann. Title 49, Chapter 2).

Utility Systems

Self-Supporting Requirement

Pursuant to Tenn. Code Ann. § 7-34-115, municipal utilities are required to be self-supporting and utility revenue cannot be used to subsidize ~~the general/other~~ operations of the local government. Any unlawful use of utility revenue ~~transferred, not lent, to another fund~~ is subject either to immediate repayment or the submission of a ~~five-year~~ corrective action plan not to exceed five years as approved by, and overseen by, the State Comptroller. ~~This excludes payments in lieu of tax (PILOT) transfers that are permitted by state law.~~ Elected and appointed local officials are subject to ouster for failure to repay. County, municipal, and metropolitan governments that have issued revenue debt pursuant to Tenn. Code Ann. ~~§ 9-21-308~~ Title 9, Chapter 21, Part 3 are subject to the same statutory requirements.

Oversight by ~~Utility Boards~~ Tennessee Board of Utility Regulation

~~Water, and/or wastewater, and natural gas~~ systems of municipalities, counties, metropolitan governments, ~~and authorities, and utility districts~~ are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR) ~~Water & Wastewater Financing Board (WWFB).~~ ~~Utility districts are subject to the jurisdiction of the Utility Management Review Board (UMRB).~~

Statutes require the State Comptroller to refer ~~utility districts and~~ governmental water, ~~and/or sewer, and natural gas~~ systems that are in financial distress to the ~~UMRB and the WWFB~~ TBOUR, respectively, for oversight and corrective action (Tenn. Code Ann. ~~§§ 7-82-703 and 68-221-1010~~). The State Comptroller is also required to refer a utility system to TBOUR for excessive water loss, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

~~The WWFB and UMRB~~ TBOUR exercises oversight by ensuring the financial sustainability of Tennessee's utility systems. The boards have created specific statutory criteria to identify financially distressed systems. The budget should be designed to (1) result in a statutory increase in net position, which is defined as:

Change in Net Position (GAAP Basis)	\$ _____
Less:	
Grants – Capital	\$ _____
Grants – Operating	_____
Capital Contributions	_____
Interfund Transfers from Other Funds	_____
Statutory Change in Net Position	\$ _____

(2) pay all debt service as it becomes due, and (3) generate sufficient revenue to sustain a positive total net position.

Pensions – Defined Benefit Plans

Local governments are eligible to participate in the Tennessee Consolidated Retirement System (TCRS). TCRS is a statewide pension system that is administered by the Tennessee Department of Treasury. The annual actuarially determined contribution for TCRS defined benefit pension plans must be 100% funded in TCRS's annual budget [Tenn. Code Ann. § 8-37-310]. Local governments that have defined benefit pension plans that are not part of TCRS are subject the Public Employee Defined Benefit Financial Security Act of 2014 (the "Act") which requires local governments to annually fund at least 100% of the actuarially determined contribution. Pursuant to the Act, local governments are also required to adopt a funding policy and file it with the state Comptroller who serves as the depository for polices that are reviewed and maintained by the state Treasurer. [Tenn. Code Ann. § 9-3-501 et seq.]

State Street Aid Fund

Pursuant to Tenn. Code Ann. § 54-4-204, upon written request from a municipality, the Comptroller of the Treasury may authorize that state street aid funds be kept and accounted for in the general fund instead of a special revenue fund. Approval is conditioned upon the requirement that the state street aid revenues and expenditures be accounted for separately in the general fund in a manner that allows identification of the source of revenue and the expenditures related to the revenue. If you are not sure if your municipality has received approval, you may contact the Division of Local Government Audit within the Comptroller's Office.

School Federal Projects Fund

Budget Resolution/Ordinance and Detailed Budget

There are two acceptable practices for appropriating expenditures accounted for in the School Federal Projects Fund. Expenditures may be appropriated in the annual budget resolution or ordinance in the same manner as other special revenue funds; alternatively, language may be included within the appropriation section of the annual budget resolution or ordinance stating, "the budget for School Federal Projects Fund shall be the budget approved for special projects within (*Name of Federal Programs*) and other federal grants by the (*Name of County or Municipality*) Board of Education." The State Department of Education provides both guidance and oversight related to federal grants administered by the local board of education.

School Federal Projects Fund – Funding the Grant Reimbursement Cycle

Cash flow shortages can occur in the School Federal Projects Fund because of the grant reimbursement cycle. This can result in an audit finding if there is a cash overdraft at June 30. In order to provide operating funds until federal reimbursement of grant expenditures is received by a school system, it may become necessary for local officials to authorize the transfer of available unassigned fund balance from the General Purpose School Fund to the School Federal Projects Fund. This transfer should be a sufficient amount for the stated purpose. The resolution should specify the amount of the transfer and indicate that the transfer is restricted for the purpose of providing operating funds for federal reimbursement of grant expenditures. An example resolution may be found in [Appendix 4](#). These transferred funds would remain in the School Federal Projects Fund

indefinitely or until the School Board and/or Funding Body (county commission or city governing body) act to transfer the funds back to the General Purpose School Fund.

The transfer from the General Purpose School Fund would be accounted for as an Operating Transfer Out and a reduction of Cash, which reduces the unassigned fund balance of the General Purpose School Fund. The transfer into the School Federal Projects Fund would be accounted for as an Operating Transfer In and an increase to Cash which would become part of fund equity as Restricted Fund Balance in the School Federal Projects Fund. The local Board of Education should not transfer excessive funds from the General Purpose School Fund to the School Federal Projects Fund to intentionally reduce the fund balance of the General Purpose School Fund to manipulate the budgetary process. The amount needed will depend upon the timing of cash inflows and outflows of the School Federal Projects Fund. If you need assistance in determining an appropriate amount, please contact your Analyst in the Comptroller's Division of Local Government Finance.

Execution

Execution involves assigning responsibility to administration and department heads, including the school system, for executing the budget adopted by the governing body. Monitoring the budget is important to the execution process to ensure actual spending agrees with what the governing body approved in the budget and that projected revenues are realized. There should be a process in place to monitor budget spending levels and the need for a budget amendment to increase the spending authority. Because a government has a specific amount of resources available to spend, systematic review of budget variations is an important part of the budget process. Monitoring establishes an expectation of accountability related to spending. It also enables the finance department and the governing body to respond quickly to financial distress identified as part of the monitoring process.

Budget Amendments

Counties

The amendment process varies based on the budget law that applies to your county; please refer to [Appendix 5](#) for applicable guidance.

Municipalities

Pursuant to the Municipal Budget Law of 1982, the governing body may amend the budget ordinance in the same manner as any other ordinance may be amended. We have included a list of frequently asked questions for municipal budget amendments in [Appendix 6](#).

Metropolitan Governments

General laws for metropolitan governments do not specifically address budget amendments. You should ensure that your government has legal authority to amend its budget through a charter provision, private act, or public ordinance.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities

General laws for utility districts, [municipal energy authorities](#), and water and wastewater authorities do not specifically address budget amendments. We recommend that the governing body take the same action to amend the budget as taken to adopt the budget. [Amendments should be approved by the governing body for increases and decreases to revenues and/or expenses that impact the change in net position.](#)

Allotments and Impoundments

Counties and metropolitan governments may have impoundment authority. The governing body of a county that operates under the Acts of 1957, 1981, or private act can place departments on quarter allotments or impound funds in case of a financial crisis. There is no provision for such allotments or impoundments under the general law for counties or municipalities. Metropolitan governments should ensure they have legal authority to enforce allotments and impoundments.

Oversight

State legislators have passed laws that directly impact budgetary oversight for Tennessee's local governments. The Comptroller's Office plays an integral role in that oversight through:

- Approvals;
- Audits; and
- ~~Utility Boards~~ [Tennessee Board of Utility Regulation](#).

Approvals

As fully discussed in Section 2, our Office, the Division of Local Government Finance, has a comprehensive review and approval process for the annual budget. The Office of Local Finance with the Tennessee Department of Education provides specific budgetary oversight for school systems.

Audits

The Comptroller's Division of Local Government Audit is responsible for the annual audit of Tennessee's local governments. Each financial and compliance audit is conducted in accordance with the requirements of *Government Auditing Standards*. Compliance with budgetary laws, including appropriated spending levels, is audited, and any resulting findings requires action by the local governing body to correct those findings.

~~Tennessee Board of Utility Regulation~~ [Utility Boards](#)

~~Water, and/or wastewater, and gas~~ systems of municipalities, counties, metropolitan governments, ~~and~~ authorities, ~~and utility districts~~ are subject to the jurisdiction of the [Tennessee Board of Utility Regulation \(TBOUR\)](#) ~~Water & Wastewater Financing Board (WWFB)~~. ~~Utility districts are subject to the jurisdiction of the Utility Management Review Board (UMRB).~~

Statutes require that the Comptroller's Division of Local Government Audit refer utility districts and governmental water and/or sewer systems that are in financial distress to the UMRB and the WWFB, respectively, for oversight and corrective action (Tenn. Code Ann. §§ 7-82-703 ~~and 68-221-1010~~).

A system is in financial distress pursuant to state law if any of the following conditions are demonstrated in their annual financial audit report:

- Statutory negative change in net position for two consecutive years
- [Deficit unassigned net position balance](#)
- Deficit total net position balance

- Default on debt

Additionally, a system may be referred to ~~one of the utility boards~~ TBOUR for excessive water loss, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds. Excessive water loss is separate from financial distress and is defined by the utility boards.

Local officials are statutorily required to comply with the directives of the respective utility board to restore the fiscal health of the utility system.

Various resources are available to local government entities to assist with the budget process. The resources referenced in this Section will be helpful to local officials as they manage and exercise oversight over the finances of their local government.

Seven Keys to a Fiscally Well-Managed Government

The Seven Keys to a Fiscally Well-Managed Government is a document produced by the Comptroller's Office that outlines various characteristics present in financially well-managed governments. Follow this link for a printable copy for your board and for related videos: tncot.cc/7keys

Keys 1-3 – Building a Strong Budget for a Resilient Government

1. *Structurally Balanced Budget*

A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance, indicate the budget is not structurally balanced. [Tenn. Code Ann. § 9-21-403]

2. *Cash Flow Management*

A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues, along with cash on hand, to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity, either internally (interfund tax anticipation note "TAN") or externally (bank issued TAN), prove to be necessary. [Tenn. Code Ann. § 9-21-801]

3. *Forecasting Budgetary Amounts*

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide for reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [Tenn. Code Ann. § 9-21-403]

Keys 4-5 – Planning for Unknowns

4. *Rainy Day Reserve*

Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy day fund should, at times, expect to use the reserves but also have a policy for replacing the funds.

5. *Contingency Spending Plans*

Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year, and revenues cannot be adjusted quickly, then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Keys 6-7 – Planning for Tomorrow

6. *Long-Term Liability Planning*

Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprises a large percentage of the budget, consistent management of the government's obligations is essential.

7. *Multi-Year Financial Planning*

Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.

Steps To a Well-Managed Budget

The Steps to a Well-Managed Budget is a document produced by the Comptroller's Office that outlines various steps a local government can take to manage its budget throughout the fiscal year. Follow this link for a printable copy for your board: tncot.cc/budget

The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's maybe investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

Budget To Actual Monitoring

After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.

Revenues

Revenues are meticulously forecast during the budget preparation phase, but as the budget year progresses, revenue collection should be closely monitored for variations from original estimates. Most tax collections are cyclical. Comparing the current year's monthly collections to last year for each tax category will help a local government understand if its assumptions, such as whether its planned growth rate is holding true. Timeliness is important because if revenue collections are lower for the year, then cutting expenditures or increasing the use of fund balance may be needed to ensure the budget remains balanced.

Operating Budget

Operating expenditures tend to be less cyclical than revenues – think salaries and benefits. However, even with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime; fuel and commodity purchases; repair and maintenance; and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.

Capital Expenditures

Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.

Amending The Budget

Every item in this document has led to this: It is very important to amend the budget throughout the year. When amending the budget, local governments should keep these principles in mind: the budget must be amended prior to increased spending; recurring revenues should be used to pay for recurring expenditures; cash liquidity must be considered; debt must be paid; and adequate reserves should be maintained. Amending the budget takes time, so local governments should know the process and how much lead time it takes to finalize an amendment. The budget undergirds the vision and strategy for a local government, and care must be taken to constantly monitor it.

Financial Health Metrics

Financially healthy local governments tend to have a few traits in common—they operate with balanced budgets, do not spend nonrecurring funds on recurring expenses, maintain adequate cash reserves, have a manageable debt burden, and keep liabilities in check. Local governments that do not manage these items tend to experience financial issues that show up in the following metrics that the Comptroller’s Office calculates annually:

Financial Distress Metrics	Description	No Concern	Mild Concern	Distress Concern
Cash as a Percent of Expenditures	How much cash do I have to pay cash flow and unexpected spending?	Above 15%	Less than 15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Have I been paying my bills?	Less than 25%	From 25% to 75%	Greater than 75%
Debt as a Percent of Assessed Value	How burdensome is my debt load?	Less than 8%	8% to 10%	Greater than 10%
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year if cash balance is also an issue?	Positive value	0% to negative 2%	More than negative 2%

Fund Balance Policy

Our Office recommends local governments adopt a fund balance policy for all fund types and include in its policy a requirement to maintain an unrestricted fund balance of not less than two months of the regular operating revenue or expenditures for operating funds. Local officials may determine more than two months is appropriate (for example, because of the timing of the receipt of major annual revenue sources and/or the timing of larger expenditures, such as insurance). The nature of each fund will determine the appropriate minimum amount of fund balance that should be maintained. When adopting a policy, please refer to GFOA’s best practice on fund balance guidelines: www.gfoa.org.

Cash Management Policy

Our Office recommends local governments adopt a cash management policy that addresses areas specific to cash, including, but limited to cash flow forecasting, minimum cash balances, short-term borrowing for operations, pooled cash accounts, investment of idle cash, banking, internal controls, collateralization requirements, and internal transfers, loans, and reimbursements, as applicable.

Budget to Actual Reports

As part of the monitoring process, we recommend local governments provide the following information at every regular meeting for each budgeted fund:

- A budget-to-actual report including both revenue and expenditures (expenses);
- An updated cash flow analysis showing actual data from the prior month and any changes to forecasted data; and
- Current cash and fund balance levels.

Best Practices from the Government Finance Officers Association (GFOA)

The following best practices published by GFOA support areas addressed in the [Seven Keys to a Fiscally Well-Managed Government](#), which is included in this Section:

- Achieving a Structurally Balanced Budget
- Financial Forecasting in the Budget Preparation Process
- Long-Term Financial Planning
- Using Cash Forecasts for Treasury and Operations Liquidity

GFOA also has other budgetary best practices including, but not limited to:

- Establishment of Strategic Plans
- Multi-Year Capital Planning
- Capital Budget Presentation
- Working Capital Targets for Enterprise Funds
- Public Engagement in the Budget Process

We recommend local governments review and implement best practices from GFOA as part of your budget policies and procedures, making any necessary changes to address state and local laws and regulations. Online access to GFOA's best practices is available at: www.gfoa.org.

- 1. Budget Preparation Outline**
- 2. Budget Calendar Examples**
- 3. County Continuation Budget Guidance**
- 4. Resolution to Transfer Funds to the School
Federal Projects Fund**
- 5. County Budget Amendments**
- 6. Municipality Budget Amendments –
Frequently Asked Questions**
- 7. Budget Cycle (Illustration)**

Appendix 1

Budget Preparation Outline

Preparation – The Initial Step

Preparation is the process of preparing the financial plan that is the basis of an appropriated budget, for municipalities, counties, and metro governments, and an adopted budget, for utility districts and authorities that do not have appropriated budgets. The end products of the budget preparation process are a financial plan, a legal document, and budgetary controls.

As part of the executive preparation of the annual operating and capital budget, the chief executive officer and budget officer should review the budget policy and procedures in developing the budget documents guidelines that will be provided to department heads to prepare budget information for each department, as applicable.

Budget Policy and Procedures

The following are items and areas that a local government should consider in developing a budget policy. Budget procedures should be developed and based upon the local government's budget policy. Additionally, the policy should incorporate the requirements of State statutes and the Office of the Comptroller.

A. Key Budget Items

1. Scope – the funds budgeted
2. Budget Period
3. Basis of Budgetary Accounting
4. Cost Allocation – how the direct and indirect costs of a program will be allocated

5. Basis of Control

The basis of control is the organizational unit or department level of expenditures/expenses. This classification corresponds with the governmental unit's organizational structure. A particular organizational unit may be charged with carrying out one or several activities or programs. The appropriation level is the same as the basis of control, the organizational unit. An organizational unit may be budgeted across more than one fund. Utility districts and authorities normally have one department but may have more than one, such as a water system and a gas system.

Organizational Unit Examples:

- a. Examples of an organizational unit are a: Police Department, Fire Department, Office of Building Safety, Street Department, Finance Department, Local Attorney, Council/Commission, and utility departments such as the Water & Sewer Department.

- b. Example of an organizational unit with multiple activities or programs: a Public Works Department that builds and maintains streets, roads, and bridges; collects and disposes solid waste; and maintains and oversees construction of public buildings and grounds.
- c. Example of an organizational unit budgeted across more than one fund: Public Works Department – General Fund, State Street Aid Fund, and Solid Waste Fund.

6. Balanced Budget Definition

A budget is balanced when ~~expenditures revenues~~ for the year do not exceed expenditures ~~(or expenses)~~ and beginning fund balances ~~(or net position)~~. Sufficient cash balances should be maintained throughout the year to meet cash flow needs and contingencies. To meet this requirement, a balanced budget should also have:

- a. Sufficient recurring revenue to meet recurring expenditures (expenses) (structurally balanced).
- b. Nonrecurring expenditures ~~or expenses~~ met by planned, one-time uses of cash, such as
 - i. Grants or other one-time cash receipts.
 - ii. Cash-on-hand (reserves).
 - iii. Debt proceeds.
- c. Sufficient cash available to fuel the grant reimbursement cycle.
- d. All annual debt service payments are met.

7. Budget Form and Information

- a. Terminology and classification should be the same as used for reporting and accounting. (GASB Codification 1700.118)
- b. The format is typically in a Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Position Format.
- c. The budget should be designed to clearly indicate recurring and non-recurring revenues and expenditures or expenses.
- d. Budget supporting schedules may be in a form, required by the Governing Body, to communicate specific information not reported in financial statements formats. At a minimum, three years of financial data must be presented: prior year audit amounts, current year estimated amounts, and budget year amounts.

8. Financial Forecasts

- a. Short-term – coming year’s budget
 - i. Cash/revenue
 - 1. Recurring – annual revenues, such as property and sales taxes
 - 2. Non-recurring – one-time sources of revenue, such as insurance recoveries, debt proceeds, and grant monies
 - ii. Spending
 - 1. Operating
 - a. Recurring – annual expenditures or expenses, such as salaries and utilities
 - b. Non-recurring – one-time expenditures
 - 2. Capital – expenditures for plant, property, and equipment
- b. Long-term – future years’ budget

- i. Multi-year Budget – Five-year budget forecasting the impact of future changes in revenue and spending, including the impact of new and current programs and payments on long-term liabilities.
- ii. Capital Improvement Plan – Five-year program of planned spending for the construction/purchase of plant, property, and equipment, including sources of financing and impact on the operating budget from new or improved facilities and equipment—not a wish list.

9. Performance Measurement

10. Transparency and Accountability

- a. Budget meetings
- b. Budget publication
 - i. Legally-required budget notice publication
 - ii. Website and other media
- c. Budget availability
 - i. Website
 - ii. On-site copies

B. Budget Principles

In Tennessee, budget principles are rooted in the requirement that budgets must be balanced and the local government should have sufficient cash to pay its obligations as they become due, including all annual debt service. This includes the idea of sustainability for activities accounted for in general funds, special revenue funds, and enterprise funds. Recurring spending should not exceed recurring receipts.

Key thought: Spend less than the amount of revenue your local government can generate.

1. Spending

- a. Spending cannot exceed what the local government's economy, or customer base, can realistically support.
- b. Recurring spending should not exceed recurring cash receipts.
- c. Non-recurring spending should be met by debt funding, savings, or one-time cash receipts.
- d. Critically examine past spending patterns.
 - i. Could we afford what we did in the past?
 - ii. Can we afford it in the future?
 - iii. Did past spending accomplish goals?
- e. Prioritize services,
 - i. What is important?
 - ii. What meets our needs?
 - iii. What can we afford?
- f. Maintain existing spending over providing new services.
- g. Critically examine sustainability of current services and any planned new recurring spending, including those related to capital assets.
 - i. Does it meet our needs?
 - ii. Can we afford it now and in the future?

- iii. Can we afford new recurring costs related to current and planned capital assets? For example, an expansion to the fire hall will require new equipment, more utilities, and additional personnel.
 - h. Liabilities
 - i. Pay what you owe:
 - 1. Debt
 - 2. Pensions
 - 3. OPEB
 - ii. These liabilities are recurring spending (or cash) items.
 - 2. Revenues
 - a. Tax rates and fees – cash receipts
 - i. Understand and manage tax rates and their impact.
 - ii. Assign costs to users for services to develop fees sufficient to support the provision of services.
 - b. Use of one-time cash receipts:
 - i. Should not be used for recurring spending.
 - ii. Should be matched to appropriate non-recurring cash receipts or use saved monies for one-time spending and capital projects.
 - c. Use of unpredictable cash receipts:
 - i. Should not be used for recurring spending.
 - d. Forecasting cash receipts for the coming year and future
 - i. Methods and assumptions used in forecasting should be reasonable and the assumption supportable.
 - ii. Forecasts should be realistic and conservative, not leaning toward the high-end to support new or increased spending.
 - iii. Forecasts should be made beyond the fiscal year to determine if future cash receipts are trending up or down.
 - iv. Forecasts are a tool that is not an absolute but the best guess about future performance.
 - 3. Preferences for Budget Balancing
 - a. Productivity – do more with less or the same amount of resources.
 - b. Austerity – cut or eliminate services.
 - c. Revenue – find new revenues or increase current tax rates and fees.
- C. Special Situations
- 1. Vacancy savings – the difference between the full-appropriated amount and the actual cost of authorized employee positions during a budget period.
 - 2. Equipment replacement
 - 3. Year-end budget savings – money remaining from cost efficiencies in spending being less than the appropriated amounts or otherwise achieving the planned activities for less cost than the amount appropriated. Normally, this becomes available for the next year's spending or is placed into reserves for contingencies.

- D. Budget Process
 - 1. Roles and responsibilities
 - 2. Budget calendar
 - 3. Budget document
 - 4. Budget participation
- E. Post-Adoption
 - 1. Budget controls
 - 2. Budget amendments

Related Policies

- A. Revenue Policies
- B. Expenditure (Expense) Polices
- C. Cash Management Policies
- D. Cash Balance and Rainy Day/Reserve Balance Policies
- E. Fund Balance Policies
- F. Purchasing Policies
- G. Capital Asset Management Policies
- H. Debt Management Policies
- I. Long-Term Financial Planning Polices

Budget Process

- A. Roles and Responsibilities
 - 1. Preparation
 - a. City and County Management including but not limited to the following: Chief Executive Officer (CEO), County or City Mayor, City Manager, Chief Financial Officer (CFO), and Budget Officer/Director
 - i. Prepare and distribute budget guidelines and forms for budget preparation.
 - ii. Prepare revenue forecasts and revenue estimates.
 - iii. Prepare executive budget and property tax levy from departmental budgets and revenue estimates.
 - b. Department Heads
 - i. Prepare departmental budgets in accordance with budget guidelines.
 - ii. Submit departmental budget to the CFO or Budget Officer.
 - 2. Adoption
 - a. Budget (Finance) Committee
 - i. CEO, CFO, or Budget Officer presents Executive Budget and proposed tax levy to the Budget (Finance)Committee.

- ii. Holds meetings to review budget and proposed tax levy and develop Annual Operating and Capital Budget Ordinance or Resolution with property tax levy.
- iii. May require the Department Heads and CFO or Budget Officer to make presentations or provide explanations as part of this process.
- iv. Presents original Annual Operating and Capital Budget Ordinance or Resolution with property tax levy and supporting documents to Governing Body.

(It is recommended that all members of the Governing Body attend these meeting to understand the budget.)

b. School Board

- i. Adopts its budget in accordance with State statute requirements and budget guidelines.
- ii. Submits school budget to CEO/CFO or Budget (Finance) Committee.

c. Governing Body

- i. Holds meetings to adopt Annual Operating and Capital Budget Ordinance or Resolution, with property tax levy, as applicable.
- ii. After making any amendments to the original budget, adopts the final Annual Operating and Capital Budget Ordinance or Resolution with property tax levy, as applicable.

d. Execution

- i. The CEO and Department Heads (including the School System) implement the budget adopted by the Governing Body.
- ii. Department Heads ensure that spending stays within appropriated amounts for their organizational units by monthly monitoring of departmental budgets and not executing the purchase of good or services without following proper purchasing procedures, including letting the CFO first determine if monies are available for the expenditure.
- iii. The CFO monitors the overall budget, taking appropriate action to ensure departments' budgets stay within the appropriated spending authority.

e. Evaluation

- i. CFO
 - 1. Prepares monthly budget-to-actual reports for the Budget (Finance) Committee and Governing Body.
 - 2. Updates the cash flow forecast with actual data from each completed month for the Governing Body.
 - 3. Prepares proposed budget amendments based on actual financial performance and needs.
- ii. Governing Body, Budget (Finance) Committee, and School Board
 - 1. Monitor the local government's financial health and needs based on reports on budgetary performance and cash flows from the CFO.
 - 2. Appropriately amend budget to keep in balance.
 - 3. New or increased spending should be supported by new revenues or decreases in other appropriations.

4. Evaluate overall budget performance in achieving the Governing Body's goals throughout year on a perioding basis, such as quarterly, and specifically at year end.

B. Budget Calendar

1. As part of the preparation process, a budget calendar should be developed to ensure the budget is adopted prior to the beginning of the fiscal year.
2. The budget calendar and budget guidance should be presented to the Department Heads, Budget (Finance) Committee, and Governing Body. The calendar gives deadlines and expectations for the budget process.

C. Budget Document

The budget document is prepared by the CEO, CFO or Budget Officer, and Budget Finance Committee and contains the following parts:

1. Budget Message from the Mayor/CEO/City Manager/CFO
2. Budget Summary
3. Annual Operating and Capital Budget Ordinance or Resolution with Ad Valorem (Property) Tax Levy, as applicable
4. Separate Property Tax Levy Ordinance or Resolution (if property tax is not part of, or is adopted after, the Operating and Capital Budget Ordinance or Resolution)
5. Detailed Budget (modified accrual and/or accrual basis)
 - a. Explanation of any increases in appropriations from the current year
6. Schedules
 - a. Revenue Forecasts (including a description of methodology and assumptions)
 - i. Property tax
 - ii. Sales tax
 - iii. User fees
 - iv. Other revenues
 - b. Utility Rate Schedules
 - c. Utility Revenue Forecast
 - d. Schedule of Outstanding Debt
 - e. Wage and Salary Schedule
 - f. Capital Budget and Capital Improvement Plan
 - g. Budgets Schedules
 - i. Governmental Funds
 - ii. Enterprise Funds
 - h. Cash Flow Forecasts by Fund
 - i. Schedule of Recurring/Non-Recurring Revenue, Expenditures (Expenses), and Costs [cash-outflows that are balance sheet items or included in per unit cost of

production (i.e., per unit equipment replacement/capital maintenance cost allocated per unit of production)]

- j. Other schedules required by the Governing Body or state statutes
 - i. Consider schedules that demonstrate compliance with specific statutory or other requirements.
 - ii. Consider a schedule of grants and projects that demonstrates the availability of sufficient monies to meet grant matching requirements and to cash flow the grant reimbursement cycle.
 - iii. Consider schedules for activities that are part of the General Fund but that the Governing Body would want to see as separate funds.
 - iv. Consider a multi-year operation budget as an additional schedule.

7. Annual Operating and Capital Budget Resolution or Ordinance

Depending on a local government's charter and policies, the Budget (Finance) Committee may make changes to the Executive Budget presented to them by the CEO, CFO, or Budget Officer prior to it being placed in the Operating and Capital Budget Ordinance or Resolution. The Budget (Finance) Committee may also make changes to the proposed tax levy prior to adoption.

Because the process is often specific to the laws that apply to your local government, procedures should be developed and followed to comply with budget laws that govern your local government's budget process. If your local government does not have laws that address these, contact MTAS, CTAS, TAUD, or our Office for assistance with developing procedures to ensure your government has controls in place for adoption and subsequent amendment.

The Comptroller of the Treasury or a designee may require the Governing Body to amend the original budget or the subsequent amendment budget to reduce spending for maintenance of a balanced budget.

Unexpended and unencumbered appropriations authority authorized by the Annual Operating and Capital Budget lapses at the end of the fiscal year.

8. Property Tax Levy Ordinance or Resolution, as applicable

Property tax is the only revenue the Governing Body has direct control over. All other revenues are authorized by State statute and cannot be changed solely by the action of the Governing Body. A property tax levy must be adopted for each fiscal year to collect property tax in that fiscal year.

In a reappraisal year, local governments should not delay the budget process. The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and the Comptroller's State Board of Equalization to address the situation.

If the certified tax rate is adopted as the property tax rate, then the amount of property tax revenue generated will be approximately the same as the current year for the

upcoming budget year. For information about the reappraisal process, visit the Comptroller's State Board of Equalization website at: tncot.cc/certified-tax-rate. The certified tax rate can be adopted by resolution or ordinance, depending upon state and local laws that apply to your specific local government.

In accordance with TCA § 67-5-1702, a Governing Body electing to adopt a property tax rate exceeding the certified tax rate must:

- a. Advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county and the information regarding the public hearing at which it intends to adopt an ordinance or resolution authorizing a property tax levy exceeding the certified tax rate.
- b. Within thirty (30) days after the publication, furnish to the State Board of Equalization an affidavit of publication.
- c. After the public hearing, the Governing Body may adopt an ordinance or resolution levying a tax rate more than the certified tax rate.

If the Governing Body increases the property tax rate from the certified rate, it can amend the Original Budget to appropriate monies to be spent from the increased revenue. The Original Budget should be adopted prior to the beginning of the fiscal year on July 1 even during a reappraisal year.

If the adopted property tax rate is not sufficient to fund the budget, the tax rate can be amended if the amendment process takes place prior to the first Monday in October. The property tax is amended by ordinance or resolution and noticed as any other ordinance or resolution prior to the public meeting at which it would be adopted.

If the property tax levied is not sufficient to meet the balanced budget requirements for TCA § 9-21-403, the Comptroller of the Treasury or a designee may direct the Governing Body to adopt a new property tax levy sufficient to meet all its obligations for the budget year, including debt service payments.

D. Transparency

Local governments are responsible for the public finances they manage. Part of that responsibility includes transparency to the public served. Local officials are responsible for complying with public transparency requirements. State law and local policy will govern the requirements specific to your government. Requirements will often include:

1. Publication of a notice of the public hearing in the format required by statute.
2. Notification that the budget and all supporting data is available in the Office of the Chief Financial Officer and is open to public inspection.
3. A public hearing is held on the proposed budget before its final adoption by the Governing Body.

These three requirements provide transparency in the process by giving citizens notice of the public hearing on the budget, an opportunity to examine the proposed budget, and an opportunity to participate in the public hearing. A local government may elect to do more than

the minimum statutory requirements. Our Office recommends that a local government publish the annual budget and any amendments on its website.

The following are some of the methods of engaging in public participation in the budget process:

1. Websites and dashboards
 - a. Online budget
 - b. Surveys
 - c. Interactive tools
2. Citizen involvement
 - a. Citizen advisory committees
 - b. Public outreach meeting
 - c. Scheduling Budget (Finance) Committee and Governing Body meetings at times the public can easily attend.
3. Budget Education

Appendix 2

Budget Calendar Examples

Counties

Note: Budget calendars will include the name of the new utility board.

Date	Budget Cycle Phase	Responsible Party	Procedure
January	Preparation	Budget Director	Deliver forms for all budget requests to all departments.
By March 1	Preparation	Departments	All departments except the local board of education shall deliver the appropriate estimates and budget request to the Budget Director.
By April 1	Preparation	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the departments if the committee approves or rejects the proposed budget.
Immediately After Prior	Preparation	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration; or
Immediately After Prior	Preparation	Departments	If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the Director of Accounts and Budgets within ten (10) business days after receipt of notice that the budget proposal was rejected.
By May 1	Preparation	School Department	The Local Education Agency (LEA) shall submit a proposed budget to the Budget Director, provided that the LEA may amend the proposed budget after May 1.
By June 1	Adoption	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the LEA if the Budget Committee approves or rejects the LEA budget.
Immediately After Prior	Adoption	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration
Immediately After Prior	Adoption	School Department	If rejected, the LEA shall submit a revised budget proposal to the Budget Director within ten (10) business days after receipt of notice that the budget proposal was rejected.
Immediately After Prior	Adoption	County Commission	If the Budget Committee rejects the first or second budget proposals of a department, then the third and subsequent proposals shall be sent directly to the County Commission which shall approve or reject it within ten (10) business days.
On or Before June 30	Adoption	County Commission	Adopt the fiscal year budget.
Within 15 days of Adoption	Oversight	Budget Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to overspending an appropriation.
After the Budget Year	Oversight	County Commission	Implement policies and procedures to address audit findings related to the budget process.
After the Budget Year	Oversight	County Commission and/or Utility Board	Implement directives from the Water and Wastewater Financing Board.

Municipalities

Date	Budget Cycle Phase	Responsible Party	Procedure
January-February	Preparation	Finance Director	Review prior year audit and current year estimates and prepare estimate forms.
March-April	Preparation	Finance Director	Meet with departments and estimate revenue to compile budget.
By May 15	Preparation	Finance Director	Submit estimated budget to Finance Committee for review/consideration.
Immediately after Prior	Preparation	Mayor	Submit proposed budget to legislative body.
By June 1	Adoption	Legislative Body	Finalizes budget, hold public meeting to adopt the budget on first reading.
Immediately after Prior	Adoption	Finance Director	Publishes budget notice and call a public hearing for at least 10 days after publication.
On or Before June 30	Adoption	Legislative Body	Adopt the fiscal year budget (If a three reading City plan to hold third reading prior to June 30).
Within 15 days of Adoption	Oversight	Finance Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget and enter into the accounting system.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to over spending an appropriation.
As Applicable	Oversight	Legislative Body	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Legislative Body	Implement directives from the Water and Wastewater Financing Board.

Utility Districts

Amount of Time Before the Start of the Fiscal Year	Budget Cycle Phase	Responsible Party	Procedure
Four Months	Preparation	Finance or General Manager	Review the prior year's audit and current year's estimates and prepare the estimated budget.
Two Months	Preparation	Finance or General Manager	Submit the proposed budget to the legislative body.
One to Two Months	Adoption	Commission	Hold a meeting of the governing body for the Utility District or Authority for consideration of the budget for adoption.
Immediately after Prior Step	Oversight	Finance Staff	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
Entire Fiscal Year	Execution	Finance Staff	Monitor the budget and make any recommended amendments to the governing body.
As Applicable	Oversight	Commission	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Commission	Implement directives from the Utility Management Review Board or the Water and Wastewater Financing Board.

Appendix 3

County Continuation Budget Guidance

Counties in Tennessee are required to adopt their operating budget before the beginning of the fiscal year. If circumstances arise and the county cannot adopt its budget by June 30, then Tennessee law gives authority for counties operating under the General Law, County Budgeting Law of 1957, Financial Management Act of 1981, and Financial Management Act of 1993 to operate on a continuation budget. All other counties should consult their charters.

Counties budgeting pursuant to the General Law, County Budgeting Law of 1957, and Financial Management Act of 1981 may continue operations with the appropriations of the prior fiscal year if the county legislative body (the “CLB”) has not adopted an appropriation resolution for its current fiscal year by June 30.¹ No action is required by the CLB to adopt a continuation budget if the budget is adopted prior to August 31. An agency of a county, or other entity that receives county monies, can spend no more than the amount spent in the same month of the prior fiscal year while operating under a continuation budget. While operating under a continuation budget, a county can amend its prior year’s budget, especially to provide for the payment of debt service. A final operating budget for each fiscal year must be adopted no later than August 31. Under extraordinary circumstances, a county may request approval from the Comptroller’s Division of Local Government Finance (LGF) to adopt a continuation budget approval resolution that extends its prior fiscal year appropriation authority through September 30.

Continuation Budget Extension

There are extraordinary circumstances that may justify an approval from LGF to extend the county’s continuation budget authority until September 30. The following circumstances would **not** meet requirements for approval of a continuation budget extension:

- Inability to reach an agreement on the budget
- School Board has not provided the final budget
- Property reassessment year
- Election year
- Financial statements not audited

If a county wants to request an approval for an extension of the continuation authority, it should submit a request letter from the County Executive/Mayor, on or before August 15, which includes:

- A statement that the county’s current year budget is balanced and can remain balanced during the continuation period,
- An explanation of the extraordinary circumstances that necessitated the request for continuance,
- Whether these circumstances have occurred before, and, if so, how often.

Additional information may be requested. LGF will respond within 7 business days of the request.

¹ T.C.A. § 5-9-404 General Law Budgeting, T.C.A. § 5-12-109(A) County Budgeting Law of 1957, and T.C.A. § 5-21-111 Financial Management Act of 1981.

The county should set and properly advertise a meeting at which either a continuation budget extension resolution can be adopted or the appropriation resolution for its current fiscal year can be adopted. If the extension of a continuation budget is approved, the CLB must adopt the county's appropriation resolution and tax levy resolution by September 30. A county will not have authority to spend money after September 30 without an adopted budget. Adopting a budget and tax levy in September may delay the collection of taxes until after the property tax due and payable date of the first Monday in October.

Final Operating Budget Requirements

The county should consider the following when adopting its budget:

- The appropriation and tax levy resolutions the CLB adopts and supporting documentation for the budget must be submitted to LGF for approval. State law requires a complete and proper budget be submitted immediately upon adoption.
- State law requires a county school system to submit a complete and certified copy of its entire budget to the Tennessee Department of Education (TDE) within 30 days after the beginning of the fiscal year.
- The CLB needs to adopt a budget in a timely manner so that its school system may be able to report a complete and certified school budget to TDE by the final reporting deadline of October 1 in order to maintain its eligibility to receive state school funds.
- Property taxes are due and payable on the first Monday in October.
- If the CLB adopts an unbalanced budget or one with insufficient monies appropriated for the payment of debt service, the Comptroller may direct that the appropriation resolution be amended to reduce expenditures or that the tax levy resolution be amended to increase the property tax levy.
- If the CLB does not adopt a budget in a timely manner, a county will not have any spending authority after the continuation budget deadline of August 31 or after the continuation budget extension deadline of September 30.

Please contact our Office at 615.401.7829 if you need further guidance. We ask that you contact your CTAS financial consultant if you need assistance with any of these processes related to the Commission's adoption of an appropriation resolution and tax levy resolution.

Appendix 4

Resolution to Transfer Funds to the School Federal Projects Fund

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____ TENNESSEE,

AUTHORIZING THE TRANSFER OF \$ _____

FROM

THE GENERAL PURPOSE SCHOOL FUND

TO

THE SCHOOL FEDERAL PROJECTS FUND

WHEREAS grants in the Federal Projects Fund are on a reimbursement basis and funds are requested from the State of Tennessee by [*Name of School System*] for expenditures on a monthly basis; and,

WHEREAS the School Federal Projects Fund operates with a cash deficit at various times throughout the fiscal year due to a slow turn-around time for reimbursements from the State of Tennessee; and,

WHEREAS a cash deficit in any fund is considered to be a significant deficiency in internal control; and,

WHEREAS [*Name of School System*] does not desire to operate any fund with a cash deficit.

NOW, THEREFORE, BE IT RESOLVED by the Board of Education of [*Name of School System*], a local education agency in Tennessee, meeting in called session on this _____ day of _____ 202 ____ and by the [*Name of Governing Body of the Name of City or County*], a [*Municipality/ County*] in Tennessee, meeting in called session on this _____ day of _____ 202____, that:

Section 1. The General Purpose School Fund shall transfer \$ _____ to the School Federal Projects Fund on _____ 30, 202____.

Section 2. The \$ _____ transfer shall remain in the School Federal Projects Fund as a committed fund balance from the General Purpose School Fund and may be repaid at any time as noted in a resolution passed by the Board of Education and [*Name of Governing Body of the Name of City or County*].

Section 3. This resolution will take effect upon passage. The Secretary of the Board of Education shall include this Resolution in the minutes of the [*Name of School System*]. The [*Name of City or County*] shall include this Resolution in the minutes of the [*Name of City or County*].

Adopted this _____ day of _____ 202____.

APPROVED:

APPROVED:

Chairman, Board of Education

Mayor/County Executive [Identify Type of
Governing Body]

ATTEST:

ATTEST:

Secretary, Board of Education

[Identify Title of Local Official]

Appendix 5

County Budget Amendments

	General Law T.C.A. § 5-9-407	1981 Financial Management System T.C.A. § 5-21-111 thru 113	1993 Local Option Budgeting Law T.C.A. § 5-12-212-213	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Statutory-Required Expenditures	May not be amended to reduce any expenditure required by law. T.C.A. § 5-9-407(a)	The county legislative body may alter or revise the proposed budget; however, it may not reduce budgeted amounts for the repayment of debt principal and interest requirements or for other expenditures required by law. T.C.A. § 5-21-111(e)(1)		Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Highway Departments		T.C.A. § 5-21-110(c)(2) includes Highway Funds in the budget.	Must first be approved by the chief administrative officer of the county highway department.			
Schools	Must be approved by the school board. T.C.A. § 5-9-407(a)	The classification of expenditures and receipts of all county school funds for any purpose, administered by the county board of education and county director of schools, shall conform to the classification of accounts as prescribed by the Commissioner of Education. T.C.A. § 5-21-110(d)(4).	Must first be approved by the school board.	Follow provisions of General Law.		
Definition of Major Budget Category	Defined as major categories or summary accounts in latest COT chart of accounts.	TCA 5-21-110(d)(3) as set by the state uniform accounting system.	Not defined in this local option law, follow provisions of General Law.	Follow provisions of General Law		
Major Budget Category Legal Action	Passage of an amendment by majority of county legislative body.	Submitted to the budget committee for its recommendation to the county legislative body.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law.		

	"General Law T.C.A. § 5-9-407"	1981 Financial Management System T.C.A. § 5-21-111 thru 113	"1993 Local Option Budgeting Law T.C.A. § 5-12-212-213"	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Major Budget Category: Request by an Official or Department Head	Must be in writing to county and each member of legislative body.	A department head is entitled to a hearing before the legislative body in order to justify any proposed additional requests or budget estimates. T.C.A. § 5-21-111(f)	Must be in writing to county and each member of legislative body.	Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Major Budget Category: Form/Content of Amendment	T.C.A. § 5-9-407(b)	T.C.A. § 5-21-113(e) - above the line item category must be sent to the commission for approval.	T.C.A. § 5-12-213(a)(3)	Follow provisions of General Law		
Line Item Within a Major Category	Cannot be previously disapproved by legislative body. Specific requirements apply. The county should develop policies to ensure statute is followed.	The budget committee, with the consent of any official, head of any department or division that may be affected, may make transfers and adjustments within the smallest budgetary itemization of any subdivision.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law T.C.A. § 5-12-110		
Amendments as a Result of Local, State, or Federal Revenues Received in Excess of Estimates Used to Adopt the Budget		Submitted to the budget committee for its recommendation to the county legislative body.	Approved by majority vote of legislative body. The requesting department must give written notice to the county mayor at least 7 days prior to consideration by legislative body. T.C.A. §5-12-212 T.C.A. § 5-12-215			
Impoundment to Prevent a Deficit		T.C.A. § 5-21-112(c)(1)				
Court Orders		The county legislative body shall adopt any budget amendment necessary to implement such court order. T.C.A. § 5-21-110(d)(5)	Amendments shall be made to comply with court orders. T.C.A. § 2-12-213(c)			

Appendix 6

Municipality Budget Amendments Frequently Asked Questions

1. When and how do municipalities amend their budgets?

Municipalities must amend their budgets prior to increasing spending for any appropriation.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

2. Can a municipality amend its budget after the end of the fiscal year?

Monies must be appropriated prior to being spent. Budget amendments must be adopted to authorize increases in spending. No provision is made to permit the authority to spend after the fact.

Tennessee Opinion of the Attorney General No. 99-075

3. At what classification level are budget amendments made?

Municipal appropriations are made at the department, office, board, and agency level or organizational unit level unless the requirements of your municipal form of government exceed the requirements of the Municipal Budget Law of 1982.

Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-202 & 6-56-203(1))

4. Do amendments need to show the source of funds (revenues, fund balance, reductions in other appropriations, or transfers) supporting any new spending?

Yes.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

5. Can the expenditure amounts in the detailed budget or budgetary control accounts be less than the amount appropriated?

Yes, the appropriated amount is the maximum amount that may be spent for that appropriation. The amount appropriated cannot exceed available cash as estimated in the original budget

ordinance and spending for appropriations cannot exceed monies available at the time of expenditure. A municipality may use control accounts which are less than the amount appropriated. A municipality cannot plan to spend more than appropriated.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

6. How are transfers made between funds?

Transfers between funds are made by appropriating through the original budget ordinance or by a budget amendment from the sending fund to the receiving fund. Transfers are reported as other financing uses for the fund transfers are made from and as other financing sources for the receiving fund. **A transfer is not a loan between funds.** A transfer must be appropriated and included in the original budget ordinance or in a budget amendment before it can be executed.

Tenn. Code Ann. §§ 6-22-122, 6-35-308 and 6-56-203(1)

7. How are budgetary transfers made between appropriations in the same fund?

a. Municipalities Generally

Budgetary transfers between departments, offices, boards, and agencies are made by a budget amendment adopted by the governing body unless the governing body has delegated authority in the original budget ordinance for the budget officer to make transfers. When the authority is delegated by the governing body, it must set a maximum amount the budget officer may transfer. If authority has been delegated to the budget officer, the budget officer must report to the governing body the amount of any transfers between appropriations in the same fund at the next regular meeting. The report on the transfer must be entered in the minutes of that meeting. Any transfer above the amount delegated to the budget officer must be by a budget amendment adopted by the governing body.

Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-209)

b. Municipalities with a General Law City Manager – Commission Charter

Budgetary transfers between departments, offices, boards, and agencies within the same fund are by budget amendment.

Tenn. Code Ann. § 6-22-124(c)

c. Municipalities with a General Law Modified City Manager – Council Charter

The city manager can make budgetary transfers between departments, agencies, or activities within each fund.

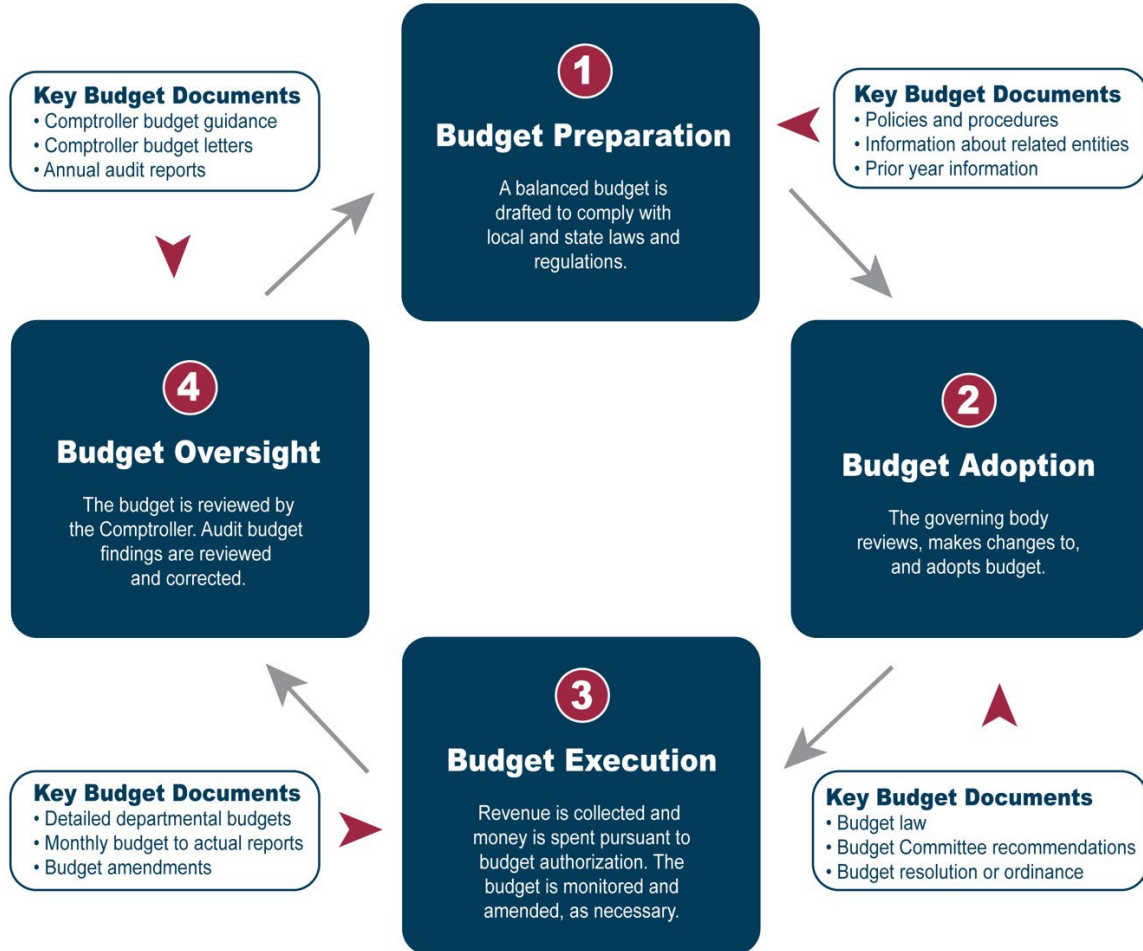
Tenn. Code Ann. § 6-35-310

8. Do budget amendments have to be balanced?

Budgets must remain balanced. Therefore, increases in appropriations must be accompanied by an increase in revenues, a transfer of money from another fund, a decrease in cash, a use of fund balance (or net position), or a decrease in the appropriations of another organizational unit(s) of the same fund.

Appendix 7

The Budget Cycle





JASON E. MUMPOWER
Comptroller

Tennessee State Funding Board Guidelines Debt Reporting by Industrial Development Boards

I. Background

Title 7, Chapter 53 of the Tennessee Code Annotated (“T.C.A.”) authorizes the formation of industrial development corporations, also known as industrial development boards, (“IDB”) for the purpose of maintaining and increasing employment opportunities, agricultural commodities, and available housing, as well as addressing environmental pollution. Public Chapter 529, Acts of 2018 (“Act”) creates transparency related to IDB debt by adding to T.C.A. § 7-53-304 a requirement that each IDB maintain an aggregate listing of its current debt, including conduit debt, in accordance with guidelines approved by the Tennessee State Funding Board (“SFB”). Annually each IDB must file with the SFB the list and any information required by the SFB. Additionally, each IDB is required to file with the SFB a notice within fifteen (15) days of an event of default on any of its debt obligations.

II. Reporting

A. Annual Report on Outstanding Debt

IDBs have one hundred twenty (120) days from the close of the ir fiscal year ~~or until January 31 of the following year, whichever is later~~, to submit the Annual Report on Outstanding Debt using the reporting format prescribed in Appendix A.

B. Notice of Default

The IDB shall file a notice ~~of default~~ within fifteen (15) days ~~either of any of the following occurrences:~~of

1. Default (~~as~~ defined below);
2. Insufficiency of funds to make scheduled debt payments, even though not defined as a default in the indenture; or
3. ~~of~~Receipt by the IDB of a notice of an event of default from a conduit borrower.

The reporting format is prescribed in Appendix B.

III. Defined Terms

- A. “Authorized Representative” shall mean the individual the IDB has authorized to compile

and submit information pursuant to the Act and these Guidelines.

- B. “Debt” shall mean any bond, note, loan agreement, or other evidence of a debt obligation, including leases. “Debt” does not include credit and liquidity facilities and standby or drawdown loan agreements that have not been drawn on or utilized. “Debt” includes both IDB and conduit debt obligations as described below.
 - 1. “IDB Debt Obligation” is debt in which the IDB incurs a definite and absolute obligation to the payment of the principal of and interest on the debt obligation, [including tax increment financing bonds \(TIF Bonds\)](#).
 - 2. “Conduit Debt Obligation” is debt issued by the IDB to provide capital financing for a public, private, or nonprofit entity other than the IDB.
- C. “Default” shall mean (1) a failure to pay principal of or interest on a debt when it is due and [defined as a default in the indenture](#); or (2) a failure to comply with a covenant, promise, or duty imposed by the debt documents upon any required passage of time or giving of notice; or both, but does not include situations where such failure has been waived.
- D. “Industrial Development Corporation/Board” or “IDB” shall mean any corporation organized pursuant to Title 7, Chapter 53 of the T.C.A.
- E. “Report on Debt Obligation” ~~shall mean State Form CT-0253~~ as prescribed in T.C.A. § 9-21-[13451](#).
- F. “Report on Outstanding Debt” shall mean the annual listing of debt to be submitted by the Authorized Representative, using the reporting format as prescribed in Appendix A.

Approved by the State Funding Board at its meeting on January 21, 2020, [and amended at the meeting held on _____, 2023.](#)

Appendix A

Industrial Development Boards (“IDB”) Report on Outstanding Debt Format

The IDB must prepare a listing of its currently outstanding debt. The information indicated below is required to be included in the listing. In order to prepare the listing, IDBs should locate and review annual financial reports, closing transcripts, and board minutes. If the IDB is unable to obtain the required information, the Authorized Representative must furnish a statement of the efforts undertaken to obtain the information, the problems encountered in obtaining the information, and the efforts to be undertaken to subsequently obtain the information. IDBs are also encouraged but not required to collect the recommended information for each debt issue.

I. Required Information

A. IDB information to provide:

1. Name of IDB as listed in the certificate of incorporation.
2. County or Counties in which the IDB is located.
3. List of the current IDB Board Members and the Authorized Representative, including their name, title, company/government, ~~physical and~~ email addresses, and phone number.
4. As applicable, identify the IDB Counsel and Financial Advisor, including their name, title, company, ~~physical and~~ email addresses, and phone number.

B. Listing of Currently-Outstanding Debt – For each issue of debt, provide:

1. The name of the debt and date it was issued.
2. The date of the final maturity or final principal payment on the debt.
3. The original dollar amount of the debt.
4. The name of the project financed or a description of the purpose for the debt, indicating whether the debt is a direct debt of the IDB, a Conduit Debt Obligation, or a Tax Increment Financing Bond. (Do not include Non-debt (PILOT/Leasehold).)
5. ~~The date~~ If the Report on Debt Obligation (~~Form CT-0253~~) was filed with the Division of Local Government Finance.

II. Recommended Additional Information for Each Issue of Debt

- A. The dollar amount of the principal outstanding as of the end of fiscal year.
- B. The federal tax status (taxable or tax-exempt).
- C. The type of issuance (publicly sold, direct placement, or loan).
- D. As applicable, the name and contact information for the trustee, paying agent, or debt holder.
- ~~E. If applicable, information on the balloon debt structure, derivatives, and original debt (if a refunding).~~

Appendix B

Industrial Development Boards

Notice of Default Form

The Industrial Development Board (“IDB”) must give notice to the State Funding Board (“SFB”) of default on any IDB or Conduit Debt Obligations within fifteen (15) days of the event or of receipt of notice of default. A copy of any notice of default received by the IDB must be included with the Notice of Default to the SFB. Also, a copy of the official statement, offering memorandum, or loan document, as applicable, related to the debt should be included as part of the notice ~~if not previously provided to the Comptroller of the Treasury with a Report on Debt Obligation filing~~. If a notice of default received by the IDB contains the required information and is attached to the IDB’s submission to the SFB, the IDB does not have to restate such information. If the IDB is unable to obtain all the required information, the IDB should furnish a statement of the efforts undertaken to obtain the required information, the problems encountered in obtaining the information and the efforts to be undertaken to subsequently obtain the information.

The following items should be included on the Notice of Default:

- A. **Name of IDB** as listed in its certificate of incorporation.
- B. **Contact Information**, including the name, title, company/government, phone number, and email address for the IDB President or Chair, IDB Counsel, Financial Advisor (if applicable), Obligor (if applicable), and Authorized Representative.
- C. **Name of Defaulted Debt Issue** as reported on the official statement or offering memorandum or other loan document (for example: “Tax Increment Revenue Bonds (ABC Project), Series 2014”).
- D. **Description of Debt**, including sources of revenue pledged to repay the debt and, if applicable, the lien position of revenues as associated with other outstanding debt.
- E. **Type of Default** (monetary, ~~or~~ technical, or a reporting of insufficient of funds that is not classified as a default under the indenture).
- F. **Date of Default**: Either the date the IDB defaulted on debt, had insufficient funds to pay debt service but was not a default under the indenture, ~~or~~ discovered an event of technical default, or the date on which the IDB received notice of default.
- G. **Date Default Reported on EMMA**: If applicable, the date the defaulted principal and/or interest payment was reported to the MSRB’s Electronic Municipal Market Access (EMMA) system.
- H. **Reason for Default and Plans to Cure**: Describe the events leading to default and plans to cure it; if a non-default describe the details of the indenture.
- I. **Additional Comments**: Include any comments pertinent to the defaulted debt issue that are not otherwise addressed within the notice.
- J. **Signature**: The Authorized Representative should date and submit the notice within fifteen

(15) days of the event of default or of receipt of the notice of default given to the IDB.



JASON E. MUMPOWER
Comptroller

Tennessee State Funding Board Guidelines Comptroller Approval of Balloon Indebtedness

I. Background

Public Chapter 766, Acts of 2014 (the “Act”)¹ requires the Comptroller of the Treasury to approve plans of balloon indebtedness and authorizes the State Funding Board to establish guidelines with respect to such approval.² The Act and the State Funding Board Guidelines took effect on July 1, 2014.

II. Definitions

- A. “Director” shall mean the Director of the Division of Local Government Finance (“LGF”), Tennessee Comptroller of the Treasury.
- B. “Description of Indebtedness” shall mean a sufficiently detailed description of the proposed debt issuance. It must include the following information:
 - 1. the security for the proposed debt,
 - 2. the project that will be financed with the debt³,
 - 3. all material terms of the proposed transaction,
 - 4. citation(s) to all relevant statutory authority for the transaction, and
 - 5. all proposed amortization schedules relating to the debt issuance.
- C. “Repayment Plan” shall mean a proposed payment plan signed by the Chief Executive Officer (“CEO”) or chair of the governing body or committee that acknowledges any risks associated with the transaction.
- D. “Request for Blanket Exemption” shall mean a request for the State Funding Board to grant a blanket exemption for certain classes or issues of indebtedness from approval, as authorized by the Act. Bond counsel, financial advisors, or any other professionals working on the debt issuance must submit the request for exemption in writing, explaining in detail why the issuance of this type of balloon indebtedness is not counter to the public’s interest.

¹ Enacted subsequent to Public Chapter 529, Acts of 2014 and is the prevailing “Anti-Kicking the Can Act.”

² State Funding Board Guidelines are to be updated and supplemented on an as needed basis.

³ Multiple series of debt proposed to be issued simultaneously and that will finance the same project will be reviewed in the aggregate and can be included in one plan.

- E. “Request Letter” shall mean a letter signed by the CEO or chair of the governing body or committee that states in sufficient detail the public purpose for the proposed balloon indebtedness, the justification for a balloon indebtedness structure, and why the issuance of such debt is in the public’s interest. Additionally, the request letter will quantify the costs and risks of a balloon indebtedness structure and quantify and demonstrate the specific benefits that are in the public’s interest.

III. Request for Comptroller Approval of Plans of Balloon Indebtedness

Prior to the submission of a Plan of Balloon Indebtedness the local government must have amended its Debt Management Policy to permit the issuance of debt with a balloon indebtedness structure and included criteria to determine the appropriateness of delaying principal payments at a higher interest cost than a level principal or level debt service structure.

A. Submission Requirements:

1. Request Letter
2. Description of Indebtedness
3. Repayment Plan
4. Request for Blanket Exemption, if applicable
5. Contact Information, including e-mail addresses, for bond counsel, financial advisors, and any other professionals working on the proposed debt issuance
6. Any other relevant documents that substantiate the reasons for issuing balloon indebtedness, including an index to such documents

B. Requests for approval of plans of balloon indebtedness and any supplemental documentation requested by the LGF should be emailed to LGF@cot.tn.gov.

C. Within seven (7) business days of the receipt of plans of balloon indebtedness, the LGF will request any supplemental documentation needed to complete the review. The fifteen (15) business days within which the LGF will report on its approval or disapproval of such plans will not commence until the date of receipt of all supplemental documentation, as authorized by the Act.

D. The Director will send an approval or disapproval letter via e-mail to the CEO and/or the CFO with all noted professionals copied.

E. The CEO or CFO will inform the LGF of any material changes to an approved plan of balloon indebtedness before the debt is issued. The LGF will determine whether or not the changes are material enough that a new plan must be submitted for approval.

F. If a proposed issuance of refunding bonds is classified as balloon indebtedness, then a request for a report on a plan of refunding should accompany a request for approval of balloon indebtedness.

G. When determining if the issuance of debt constitutes balloon indebtedness, any new money debt issuance must be evaluated separately from any refunding debt issued at the same time.

~~H. If a Local Government seeks to issue new money balloon indebtedness or refunding balloon indebtedness (defined as debt that would have been classified as balloon indebtedness if its original structure would meet the criteria of Public Chapter 766) it must first adopt a plan of balloon debt management that:~~

- ~~1. Explains the history of the local government's balloon debt (why it was issued),~~
- ~~2. Details the Local Government's plan to manage the current Balloon indebtedness, mitigate risks inherent in the structure, and how future debt will be issued as level,~~
- ~~3. Show graphic display of each debt issuance grouped by issuing fund, and~~
- ~~4. Discuss review and amendment of the plan.~~

~~The plan must be adopted by the local government's governing body and submitted with the Plan of Balloon Indebtedness as described in Section III.A.~~

Approved by the State Funding Board at its meeting held on June 18, 2014, and amended at the meeting held _____, 2023.

**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 6, 2023

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

Dear Comptroller Mumpower:

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 May 26, 2021 and expires on July 1, 2026.

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, 2024.

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

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

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

Sincerely,

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

June 7, 2023

Michael Brakebill, CFA, CAIA
Chief Investment Officer



JASON E. MUMPOWER
Comptroller

June 27, 2023

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 May 26, 2021, and expires on July 1, 2026.

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, 2024.

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, 2024.

Sincerely,

Jason E. Mumpower
Secretary, State Funding Board

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

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

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

(b) By resolutions adopted by the Funding Board of the State of Tennessee (the “**Funding Board**”) on 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, July 17, 2018, June 27, 2019, July 20, 2020, July 22, 2021 and July 26, 2022, 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.

(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 or General Obligation Bonds.

(f) The Funding Board acknowledges that the Director of the Comptroller of the Treasury's Division of State Government 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 \$575,000,000, (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 5.50% in the case of the Tax-Exempt Bonds and 6.50% 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, in the case of Tax-Exempt Bonds, initially not later than ten and one-half years from the date of initial delivery of such Bonds) and at such fixed redemption price or prices or 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, 2019 Series A and General Obligation Bonds, 2019 Series B (Federally Taxable) with such insertions, changes and additions to and omissions from said form

as any Authorized Officer, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate (the “**Notice of Sale**”), the distribution of which as hereinafter authorized shall be conclusive evidence of such approval and consultation. In addition, such Notices of Sale shall include the certification required by Section 12-4-119, Tennessee Code Annotated.

(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 5.50% for Tax-Exempt Bonds of each series and 6.50% 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:

(4) The Bonds sold at negotiated sale are hereby authorized to be sold to such direct purchasers or underwriters as may be named in the Bond Purchase Agreements 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 Agreements; *provided*, however, that the direct purchasers, or lead book-running underwriter(s) and senior manager(s), thereunder shall be selected from among the following or any parent or affiliate thereof: Barclays, FHN Financial Capital Markets, Jefferies LLC, J.P. Morgan, Loop Capital Markets, LLC, Morgan Stanley & Co., LLC, Ramirez & Company, Inc., Raymond James & Associates, Inc., Truist Securities, Inc., Siebert Williams Shank & Co., LLC, UBS Financial Services Inc., Wells Fargo N.A. and Wells Fargo Securities, LLC. In consideration of Section 2(d) hereof and paragraph (2) below, it is not necessary for the Funding Board to place any limitation on the purchase price payable by the Negotiated Sale Purchasers.

(5) 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, 2021 Series A, 2021 Refunding Series B (Federally Taxable), but reflecting details of the transactions contemplated by this Resolution and any updates to applicable laws, 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 5.50% for Tax-Exempt Bonds of each series and 6.50% 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 Board, 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 Comptroller of the Treasury’s Division of State Government Finance, 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 by manual 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 (d) 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, and may be made directly as required by any agreement between the State and the grantee pursuant to Section 4(2) of Chapter 1133, Public Acts of 2022.

(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. RESERVED.

SECTION 9. CUSIP Numbers. CUSIP identification numbers will be imprinted on each Bond to be delivered to DTC, but no such number shall constitute a part of the contract evidenced by the particular bond upon which it is imprinted; no liability shall attach to the State or the Funding Board or any officer, employee or agent of either of them, including any paying agent or registrar for the Bonds, by reason of such number or any use made thereof including any use thereof made by the State or the Funding Board or any such officer, employee or any such agent of either of them, or by reason or any inaccuracy, error, or omission with respect thereto, or in such use, and any inaccuracy, error, or omission with respect thereto shall not constitute cause for failure or refusal by the Purchasers to accept delivery of and pay for the respective Bonds in accordance with the terms of its bid or a Bond Purchase Agreement, as the case may be. All expenses in relation to the printing of such numbers on the Bonds will be paid by the State; provided, however, that the CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid by the Purchasers. In addition, the 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 10. Continuing Disclosure. (a) The Secretary or Assistant Secretary of the Funding Board is hereby authorized to execute a Continuing Disclosure Undertaking or Continuing Disclosure Undertakings (each, a “**Continuing Disclosure Undertaking**”) substantially in the form executed and delivered in connection with the issuance of the State’s General Obligation Bonds, 2021 Series A and General Obligation Bonds, 2021 Refunding Series B (Federally Taxable) and as described in the Preliminary Official Statement, with such variations as the signatory thereof, after consultation with counsel to the Funding Board, shall approve as necessary or appropriate, such execution and delivery to be conclusive evidence of such determination and consultation. Execution of the Continuing Disclosure Undertaking as aforesaid and delivery of the same to the Purchasers shall be a condition precedent to the obligations of the Purchasers to purchase the respective Bonds.

(b) The State covenants with the holders from time to time of the Bonds that it will, and hereby authorizes the appropriate officers and employees of the State to, take all action necessary or appropriate to, comply with and carry out all of the provisions of the respective Continuing Disclosure Undertaking as amended from time to time. Notwithstanding any other provision of this Resolution, failure of the State to perform in accordance with any Continuing Disclosure Undertaking shall not constitute a default or an event of default and shall not result in

any acceleration of payment of any Bonds, and any rights and remedies provided by this Resolution and applicable law upon the occurrence of such a default or an event of default shall not apply to any such failure, but such Continuing Disclosure Undertaking may be enforced only as provided therein.

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

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

SECTION 13. Repealer. The resolution adopted by the Funding Board on April 26, 2023, with the same title as this Resolution is hereby repealed in its entirety.

SECTION 14. 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 15. 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 16. 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 17. Effectiveness of this Resolution. This Resolution shall be in full force and effect from and after its passage.

Adopted this 27th day of June, 2023.

Jason E. Mumpower, Secretary
Funding Board of the State of Tennessee

Form of Bonds

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE ISSUER OR ITS AGENT 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
 2023 SERIES __ [(FEDERALLY TAXABLE)]

Registered R23__-[maturity]-[number] Registered \$ _____

<u>BOND DATE</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CUSIP</u>
_____, 2023	_____%	_____, ____	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 27, 2023, including as a part thereof a Series Certificate executed and delivered on _____, 2023 (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 heretofore issued for public purposes of various State departments and institutions]. Reference is made to the Resolution, to all of the provisions of which the Registered Owner, by acceptance hereof, hereby assents, for all terms and provisions of this Bond not set forth herein.

This Bond and the issue of which it is one 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.

**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 67-4-211(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 2023-2024; 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 2023-2024 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.

**RESOLUTION ALLOCATING FROM THE DEBT SERVICE
FUND TO THE CAPITAL PROJECTS FUND \$266,242.41
AND CANCELING AUTHORIZED BONDS**

Recitals

The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 591, Public Acts of Tennessee, 2007 (the “2007 Act”), to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Ninety-Five Million Dollars and no Cents (\$295,000,000.00) of which Seven Million Dollars and no Cents (\$7,000,000.00) is allocated pursuant to Section 4(3) of the 2007 Act (the “Item 3 Bonds”) to the Department of Finance and Administration, to provide funds for acquisition of sites and existing structures for expansion purposes for the Tennessee Board of Regents on behalf of the University of Memphis (“UofM”).

The State Funding Board has previously canceled Five Million, Three Hundred Fifty-Two Thousand, Six Hundred Ninety-Five Dollars and Sixty-Two Cents (\$5,352,695.62) of the Item 3 Bonds. None of the remaining One Million, Six Hundred Forty-Seven Thousand, Three Hundred Four Dollars and Thirty-Eight Cents (\$1,647,304.38) principal amount of the Item 3 Bonds has been issued as 2007 Act Bonds, but cash has been expended from the Capital Projects Fund.

By memorandum dated June 6, 2023, the Commissioner of Finance and Administration notified the State Funding Board that UofM has paid Two Hundred Sixty-Six Thousand, Two Hundred Forty-Two Dollars and Forty-One Cents (\$266,242.41) into the Debt Service Fund in accordance with an agreement between UofM and the State Funding Board and recommended that: (1) a like amount should be allocated to the Capital Projects Fund and (2) a like amount of general obligation bonds effective in the fiscal year ending June 30, 2023 be canceled.

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

1. The project authorized to be financed by the 2007 Act, Item 3 Bonds has been financed in part with current funds and Two Hundred Sixty-six Thousand, Two Hundred Forty-Two Dollars and Forty-One Cents (\$266,242.41) is no longer needed to fund such authorized project.
2. Two Hundred Sixty-Six Thousand, Two Hundred Forty-Two Dollars and Forty-One Cents (\$266,242.41) in accordance with the authority provided by Tennessee Code Annotated Section 9-9-205, is allocated from the Debt Service Fund to the Capital Projects Fund to defray the cost of a portion of the Item 3 Bonds.
3. In accordance with the authority provided by Tennessee Code Annotated Section 9-9-208, and the memorandum from the Commissioner of Finance and Administration dated June 6, 2023, the State Funding Board hereby cancels Two Hundred Sixty-Six Thousand, Two Hundred Forty-Two Dollars and Forty-One Cents (\$266,242.41) of the principal amount authorized by the 2007 Act for the Item 3 Bonds.
4. This resolution shall be effective as of June 27, 2023, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2023.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

**RESOLUTION ALLOCATING FROM THE DEBT SERVICE
FUND TO THE CAPITAL PROJECTS FUND \$2,445.07 AND
CANCELING AUTHORIZED BONDS**

RECITALS

(1) The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 1024, Public Acts of Tennessee, 2012 (the “2012 Act”) to issue and sell its general obligation bonds in an amount not to exceed Three Hundred Eighty-One Million, Nine Hundred Thousand Dollars and no Cents (\$381,900,000.00) of which Two Hundred Thirty Million, Nine Hundred Thousand Dollars and no Cents (\$230,900,000.00) is allocated pursuant to Section 4(1) of the 2012 Act to the Department of Finance and Administration 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, improvement, betterments and extraordinary repairs to existing structures (the “2012 Act Bonds”).

By memorandum dated June 16, 2023, the Commissioner of Finance and Administration has notified the Funding Board that Two Thousand, Four Hundred Forty-Five Dollars and Seven Cents (\$2,445.07) is available for the 2012 Act Bonds from funds not required for debt service and recommended that a like amount of the unissued 2012 Act Bonds be canceled.

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

1. The projects authorized to be financed by the 2012 Act Bonds have been financed in whole or in part with commercial paper and the commercial paper has been retired in whole or in part without the issuance of bonds and Two Thousand, Four Hundred Forty-Five Dollars and Seven Cents (\$2,445.07) is no longer needed to fund such authorized projects.
2. Two Thousand, Four Hundred Forty-Five Dollars and Seven Cents (\$2,445.07) in accordance with the authority provided by Tennessee Code Annotated Sections 9-9-205 and 9-9-208, is allocated from the Debt Service Fund to the Capital Projects Fund to defray the cost of a portion on the 2012 Act Bonds.
3. In accordance with authority provided by Tennessee Code Annotated Section 9-9-205 and 9-9-208, and memorandum from the Commissioner of Finance and Administration dated June 16, 2023, the Funding Board hereby cancels Two Thousand, Four Hundred Forty-Five Dollars and Seven Cents (\$2,445.07) of the principal amount authorized by the 2012 Act for the 2012 Act Bonds.
4. This resolution shall be effective as of June 27, 2023, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2023.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

RESOLUTION CERTIFYING AND AUTHORIZING THE ALLOCATION OF FUNDS TO THE SINKING FUND FOR THE 2023-2024 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 Tenn Code Ann. 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 Tenn Code Ann. Section 67-3-203 (formerly Tenn Code Ann. 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 Tenn Code Ann. Section 9-9-106 to certify the amount necessary to provide for the payment of debt service from the fees, taxes and other revenues and funds available for such purpose.

Section 1, Title III-31, Public Acts of Tennessee, 2023, (the “2023 Appropriations Act”) appropriates the aggregate sum of Three Hundred Forty-Two Million, One Hundred One Thousand Dollars (\$342,101,000) for debt service expenses and amortization of authorized and unissued bonds for the 2023-2024 fiscal year. Section 1, Title III-33 of the 2023 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 6, 2023, that the State Funding Board allocate Three Hundred Eighty-Two Million, Three Hundred Thousand Dollars (\$382,300,000) in pledged tax revenues. Further, he recommended the following specific dollar allocation of taxes for the payment of debt service on general obligation debt of the State of Tennessee:

<u>TAX OR FEE</u>	<u>AMOUNT</u>	<u>BASIS OF ALLOCATION</u>
Franchise Tax	\$ 18,000,000	Equal monthly
Excise Tax	\$176,000,000	Equal monthly
Gasoline Tax	\$ 83,800,000	Equal monthly
Motor Vehicle Title Fees	\$ 2,700,000	Equal monthly

Further, he recommended a monthly allocation totaling One Hundred One Million, Seven Hundred Thousand Dollars (\$101,700,000) of Sales Tax revenues [which is the estimated allocation of the net receipts of State Sales Tax pursuant to Tenn Code Ann. Section 67-6-103]. These recommendations assume (i) utilization of Sports Authority Revenue in the amount of Three Million, Three Hundred Thirty Thousand Dollars (\$3,330,000) and Other Revenues (College and Universities and State Veterans’ Homes) in the amount of Four Million, Four Hundred Thirty-One Thousand Dollars (\$4,431,000), and (ii) an adjusted balance at June 30, 2024 of negative Forty-Seven Million, Nine Hundred Sixty Thousand Dollars (\$-47,960,000), for an aggregate sum of Three Hundred Eighty-Two Million, Three Hundred Thousand Dollars (\$382,300,000).

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

1. It is hereby certified to the Commissioner of Finance and Administration that the following sums shall be allocated to the Sinking Fund for debt retirement for the 2023-2024 fiscal year:

<u>SOURCE, TAX OR FEE</u>	<u>AMOUNT</u>	<u>BASIS OF ALLOCATION</u>
Franchise Tax	\$ 18,000,000	Equal Monthly
Excise Tax	\$ 176,100,000	Equal Monthly
Gasoline Tax	\$ 83,800,000	Equal Monthly
Motor Vehicle Title Fees	\$ 2,700,000	Equal Monthly
Sales Tax (estimated Tenn Code Ann. Allocation)	\$ 101,700,000	Monthly

2. This resolution shall be effective as of July 1, 2023, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2023.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

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

Recitals

The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 424, Public Acts of Tennessee, 2015 (the “2015 Act”), to issue and sell its general obligation bonds in an amount not to exceed Five Hundred Twenty-One Million, Four Hundred Thousand Dollars (\$521,400,000) of which Eighty-Three Million, Eight Hundred Thousand Dollars (\$83,800,000) is allocated pursuant to Section 4(4) of the 2015 Act (the “2015 TDOT 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 2015 TDOT Bonds principal amount authorized has been issued.

Section 6, Item 1 of Chapter 418, Public Acts of Tennessee, 2023, (the “2023 Appropriations Act”) appropriates to the Funding Board the sum of Eighty-Three Million, Eight Hundred Thousand Dollars (\$83,800,000) to cancel a like amount of unissued 2015 TDOT Bonds.

The Commissioner of Finance and Administration by memorandum dated June 6, 2023, recommended that the Funding Board proceed with canceling Eighty-Three Million, Eight Hundred Thousand Dollars (\$83,800,000) of the unissued 2015 TDOT Bonds.

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

1. The projects authorized to be financed by the 2015 TDOT Bonds have been financed in whole or in part with current funds and a total of Eighty-Three Million, Eight Hundred Thousand Dollars (\$83,800,000) is no longer needed to fund such authorized projects.
2. Eighty-Three Million, Eight Hundred Thousand Dollars (\$83,800,000) of the unissued 2015 TDOT Bonds are hereby canceled.
3. This resolution shall be effective as of July 1, 2023, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2023.

JASON E. MUMPOWER, 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 421, Public Acts of Tennessee, 2023, to be allocated as follows:

Item 1. Eighty-Three Million, Eight Hundred Thousand Dollars (\$83,800,000) 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, 2023, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 27, 2023.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD