



JASON E. MUMPOWER
Comptroller

TENNESSEE STATE FUNDING BOARD
JUNE 23, 2025
AGENDA

1. Call meeting to order, establish that there is a physical quorum, and receive public comment on actionable items in accordance with Tenn. Code Ann. § 8-44-112 and Board guidelines
2. Consideration and approval of minutes from May 19, 2025, meeting
3. Report from the Department of Economic and Community Development for approval of funding for the following FastTrack projects:
 - **Tier-Rack LLC – Bradford (Gibson County)**
FastTrack Economic Development Grant \$1,000,000
 - **Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc. –Morristown (Hamblen County)**
FastTrack Economic Development Grant \$1,468,500
 - **Summertown Metals of Morristown, LLC – Morristown (Hamblen County)**
FastTrack Economic Development Grant \$ 800,000
4. Presentation and consideration for approval of Tennessee Housing Development Agency's Schedule of Financing, Fiscal Year 2025-2026
5. Consideration and approval of a Resolution Allocating from the Debt Service Fund to the Capital Projects Fund \$154,564 and Canceling Authorized Bonds
6. Consideration and approval of a Resolution certifying Special Revenues as required by Tenn. Code Ann. § 9-9-104(b)
7. Consideration and acceptance of Tennessee Consolidated Retirement System affirmation of Standby Commercial Paper Purchase Agreement
8. Consideration and approval of update to the Tennessee Budget Manual for Local Governments
9. Consideration and approval of update to the Tennessee Debt Manual for Local Governments

10. Consideration and approval of updates to the following Tennessee State Funding Board Guidelines
 - a. Debt Reporting by Public Entities
 - b. Debt Reporting by Industrial Development Boards
 - c. Requirements, Objective, and Best Practices for Adopting a Debt Management Policy
11. Consideration and approval for removal of the Tennessee State Funding Board Guideline, Blanket Exemption Under the Anti-Kicking the Can Act (PC766, PA2014)
12. Notification for approval of Federal Emergency Management Agency (FEMA) Notes:
 - a. Town of Erwin
 - b. McNairy County
13. Consideration and approval of revisions to Tennessee State Funding Board's Debt Management Policy
14. Consideration and approval of a revised "Declaration of Trust for Other Post-Employment Benefits (OPEB) for the West Knox Utility District
15. Adjourn

TENNESSEE STATE FUNDING BOARD
May 19, 2025

The Tennessee State Funding Board (the “Board”) met on Monday, May 19, 2025, at 8:15 a.m., in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, Nashville, Tennessee. The Honorable Jason E. Mumpower was present and presided over the meeting.

The following members were also physically present:

The Honorable Tre Hargett, Secretary of State
The Honorable David H. Lillard Jr., State Treasurer
Commissioner Jim Bryson, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Having established a physical quorum, Comptroller Mumpower called the meeting to order. Comptroller Mumpower, in accordance with Tenn. Code Ann. § 8-44-112 and Board guidelines, asked Ms. Sandra Thompson, Director of the Division of State Government Finance (SGF) and Assistant Secretary to the Board, if any requests for public comment had been received. Ms. Thompson responded that no requests had been received.

Comptroller Mumpower then presented the minutes from the meeting held on April 10, 2025, for consideration and approval. Secretary Hargett made a motion to approve the minutes. Treasurer Lillard seconded the motion, and it was unanimously approved.

Comptroller Mumpower recognized Mr. Stuart McWhorter, Commissioner of the Department of Economic and Community Development (ECD), to present FastTrack projects for consideration, and Ms. Allyson Crystal, Budget and Finance Administrator, ECD, to present the “FastTrack Report to State Funding Board” (the “Report”). Ms. Crystal reported that, as of the date of the February 13, 2025, Board meeting, the FastTrack balance was \$634,906,733.78. Since that time, \$26,321,333.99 in new funds had been appropriated; \$18,713,134.32 in funds had been deobligated; \$250,000.00 in funds had been transferred out of FastTrack; \$19,200,000.00 in new grants or loans greater than \$750,000.00 had been approved; \$952,850.00 in new grants or loans less than \$750,000.00 had been approved; and \$684,869.20 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$658,853,482.89 as of the date of the Report. Ms. Crystal reported that total commitments had been made in the amount of \$508,118,112.72, representing 77.1% of the FastTrack balance, and resulted in an uncommitted FastTrack balance of \$150,735,370.17. Ms. Crystal reported that the amount of proposed grants for projects to be considered at this meeting totaled \$3,500,000.00, and if these projects were approved, the uncommitted balance would be \$147,235,370.17, with a total committed balance of \$511,618,112.72, which represented 77.7% of the FastTrack balance. Comptroller Mumpower then asked Commissioner McWhorter to present the following FastTrack projects:

- **Barrett Firearms Manufacturing, Inc. – Murfreesboro (Rutherford County)**
FastTrack Economic Development Grant \$ 2,000,000.00

- **Hyosung HICO, Ltd. Company – Memphis (Shelby County)**
FastTrack Economic Development Grant \$ 1,500,000.00

Secretary Hargett made a motion to approve the projects, and Treasurer Lillard seconded the motion. The Board member packets included letters and FastTrack checklists signed by Commissioner McWhorter, and incentive acceptance forms signed by company representatives. Comptroller Mumpower then inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Commissioner McWhorter responded affirmatively. Comptroller Mumpower then inquired if the checklists had been completed for the projects, and Commissioner McWhorter responded affirmatively. Comptroller Mumpower then inquired if the projects included accountability agreements which would provide protection for the state in the event the entities could not fulfill the agreements, and Commissioner McWhorter responded affirmatively. Hearing no other discussion, Comptroller Mumpower took the vote, and the motion was unanimously approved.

Comptroller Mumpower then recognized Mr. Chris Bessler, Senior Vice President of Cumberland Securities Company, Inc., municipal advisor to the City of Pigeon Forge, and Ms. Betsy Knotts, Counsel at Bass Berry and Sims PLC, who presented a request from the City of Pigeon Forge (“Pigeon Forge”) for retroactive approval of issuance of debt payable from Tourism Development Zone (TDZ) revenues for consideration and approval. Ms. Knotts stated that Pigeon Forge was submitting a request for approval of their 2021 Series B Refunding Bonds (the “Bonds”) that were issued for cost savings of approximately \$19 million. Ms. Knotts then stated that the Bonds were secured by a general obligation pledge so legally, and to public markets, the Bonds were issued pursuant to Tenn. Code Ann. § 9-21-200 et al. but that the Bonds were additionally payable from, but not secured by, TDZ revenues. Ms. Knotts further stated that after the issuance of the Bonds it was their understanding that the State legal advisor’s expectation was that Bonds with these types of security pledges should come before the Board for approval, therefore, Pigeon Forge was requesting retroactive approval of the issuance of the Bonds. Treasurer Lillard made a motion to retroactively approve the request from Pigeon Forge for the issuance of debt payable from TDZ revenues. Secretary Hargett seconded the motion, and it was unanimously approved.

Comptroller Mumpower then recognized Mr. Bessler and Ms. Knotts to present a request from the City of Pigeon Forge to issue debt payable from TDZ revenues for consideration and approval. Mr. Bessler started by providing a brief history of the Pigeon Forge TDZ noting that the TDZ was approved in 2006 and that Pigeon Forge had approved various Qualified Public Use Facilities (QPUFs) under the original TDZ statute before the statute was subsequently amended. Mr. Bessler then stated that the debt issuance to be considered by the board for approval would be used to finance some of the remaining outstanding QPUFs that were previously approved. Mr. Bessler stated that the city had completed the main civic event center along with various parking facilities, transportation networks, and waterworks. Mr. Bessler explained that some of the QPUFs had not been completed or funded as the city wanted to take a very measured approach in implementing its TDZ. Mr. Bessler further stated that a measured approach was utilized so the city would not overcommit itself with debt prior to receiving revenues to fund the debt and that the phased approach allowed revenues to be realized before having to incur additional debt service expense. Mr. Bessler explained that this saved both the state and Pigeon Forge money by not having to commit state and local sales tax revenues. Mr. Bessler then noted some of the remaining outstanding QPUF projects that would be financed over the next two to three years, including a \$30M expansion of the civic event center funded by the debt issuance that was being considered for approval. Mr. Bessler stated that currently overflow space was being utilized for meetings and by completing the expansion to the center it would allow Pigeon Forge to continue to host events that have been coming to Pigeon Forge but have grown to a

size that the current event center may not be able to accommodate which could cause Pigeon Forge to lose tourism revenue as those events look for larger venues.

Commissioner Bryson made a motion to approve the request from Pigeon Forge to issue debt payable from TDZ revenues, and Secretary Hargett seconded the motion. Comptroller Mumpower noted for the record that Tenn. Code Ann. § 7-88-106(a)(1) specifies that apportionment and distribution of TDZ revenues shall continue until the earlier of: the date on which the cumulative amount of the apportioned and distributed to the municipality equals the cost of the QPUF, plus any interest on the indebtedness of the municipality or public authority related to such cost; the date on which the QPUF ceases to be a QPUF; or thirty (30) years from the date it is reasonably anticipated that the facility will commence operations as a public use facility. Commissioner Bryson then asked if the debt on the QPUFs would be paid off before the scheduled end of the TDZ period. Mr. Bessler replied that it was their intention that revenues would be sufficient to pay off the debt within that time. Mr. Bessler further replied that the goal was to terminate the TDZ as soon as there was sufficient revenue received to pay off the cost of the projects plus interest. Mr. Bessler then stated that based on current revenue estimates this was anticipated to occur sometime around 2030 to 2031, prior to the 30-year TDZ period-end date of 2036. Commissioner Bryson then asked when the current amortization schedule indicated the debt would be repaid. Mr. Bessler responded that the amortization schedule they were utilizing ended in 2036 but reiterated that it was anticipated that pay-off would occur earlier assuming revenues continued to be received at the current levels. Hearing no other discussion, Comptroller Mumpower took the vote, and the motion was unanimously approved.

Comptroller Mumpower observed no further business to come before the Board. Secretary Hargett made a motion to adjourn. Treasurer Lillard seconded the motion, and it was unanimously approved. The meeting was adjourned.

Approved on this _____ day of _____ 2025.

Respectfully submitted,

Sandra Thompson,
Assistant Secretary

FastTrack Report to State Funding Board

6/23/2025

1. Previous FastTrack Balance, as of Last Report	658,853,482.89
2. + New Appropriations:	6,196,274.01
3. + Newly Deobligated Funds:	4,921,500.00
4. + Funds Transferred to FastTrack:	0.00
5. - Funds Transferred from FastTrack:	0.00
6. - FastTrack Grants or Loans Approved Greater Than \$750,000:	(5,500,000.00)
7. - FastTrack Grants or Loans Approved Less Than \$750,000:	(698,000.00)
8. - FastTrack Administration	(108,938.24)
9. Adjusted FastTrack Balance Available for Funding FastTrack Grants or Loans:	663,664,318.66
10. Total Amount of Commitments:	529,172,662.72
11. Uncommitted FastTrack:	134,491,655.94
12. Percentage Committed:	79.7%
13. Amount of Proposed Grants or Loans:	3,268,500.00
14. Uncommitted FastTrack Balance if Proposed Grants or Loans Approved:	131,223,155.94
15. Percentage Committed:	80.2%

See next page for explanations of the above questions.

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



Date: 6/13/25

Commissioner of Economic and Community Development



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

June 23, 2025

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. Tier-Rack LLC – Bradford (Gibson County)

Founded in 1955, Tier-Rack has been an industry leader in innovative rack solutions and flexible warehouse racking systems for over six decades. As a trusted manufacturer of stack racks, pallet racks, and industrial storage solutions, Tier-Rack serves thousands of businesses — including Fortune 500 companies, small privately owned firms, and government agencies — across a wide range of industries. Tier-Rack is one of the few stack rack companies in the U.S. that sells 100% American-made products.

Tier-Rack will double its current headcount as part of its expansion in Tennessee. A longstanding leader in the rack industry, Tier-Rack provides a comprehensive range of warehouse storage solutions designed to enhance operational efficiency. To better serve dealers and small to mid-sized OEMs, the company will establish a Quick Response Manufacturing (QRM) cell in a newly renovated 33,000-square-foot facility located in Bradford, TN. This investment will significantly improve service levels and production agility.



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

Tier-Rack LLC has committed to create 99 net new jobs and make a \$7,140,000 capital investment within five (5) years. The company will have an average hourly wage of \$29.50 for the new positions.

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

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

2. Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc. – Morristown (Hamblen County)

Howmet Aerospace Inc. is a global provider of advanced engineered solutions for the aerospace and transportation industries. The company specializes in jet engine components, aerospace fastening systems, airframe structural components, and forged wheels for commercial transportation. They offer products and services in four segments: Engine Products, Fastening Systems, Engineered Structures, and Forged Wheels.

Howmet Castings & Services, Inc. is part of the Engine Products business segment which is a leading supplier of investment castings in the form of airfoils (blade and vanes) and structural components of nickel superalloys, titanium, and aluminum for leading jet engine turbine aerospace and defense OEMs and large-scale gas turbine OEMs, among others. This expansion allows the company to expand their ceramic core production capabilities at their Morristown facility.

Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc. has committed to create 267 net new jobs and make a \$27,932,000 capital investment within 5 years. The company will have an average hourly wage of \$20.52 for the new positions.

FastTrack Economic Development Grant funds will help offset expenses such as building expansion, building retrofit, building improvements, and new building construction for a total of \$1,468,500. **(\$1,468,500)**

Total FastTrack funds for this project - \$1,468,500



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

3. Summertown Metals of Morristown, LLC – Morristown (Hamblen County)

Summertown Metals is a leading provider of high-quality metal building solutions for pole barns and barndominiums, committed to delivering outstanding craftsmanship, customer service, and value. Summertown Metals' mission is to maximize the team's God-given abilities and experience in ways that positively benefit customers, team members, and the community by providing exceptional and affordable building products and services.

Founded in 2006, Summertown Metals is a Tennessee-based company that has expanded from a single building materials supplier into a quality, custom building materials distributor. The expansion to East Tennessee will allow the company to better meet customer demand, providing additional space for metal roll forming, both wood and steel truss manufacturing and warehousing and distribution.

Summertown Metals of Morristown, LLC has committed to create 170 net new jobs and make a \$22,625,000 capital investment within 5 years. The company will have an average hourly wage of \$27.86 for the new positions.

FastTrack Economic Development Grant funds will help offset expenses such as new building construction for a total of \$800,000. **(\$800,000)**

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

Sincerely,

A handwritten signature in blue ink that reads "Stuart C. McWhorter". The signature is written in a cursive, flowing style.

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*			
	ECONOMIC DEVELOPMENT	The City of Bradford, Tennessee	\$1,000,000	
TOTAL			\$1,000,000	

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

***ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity):** Tier-Rack LLC

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

GENERAL STATUTORY COMPLIANCE

- 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
- 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
- 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
- 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:

- Does the business export more than half of their products or services outside of Tennessee T.C.A. § 4-3-717(h)(1)(A)? ☒
 - 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)? ☐
 - 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)? ☐
 - 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.

- 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. ☒
 - 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

6/13/25

Date



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

April 17, 2025

INCENTIVE ACCEPTANCE FORM

This form serves as notice that Tier-Rack LLC intends, in good faith, to create 99 private sector jobs in Bradford, Gibson County and make a capital investment of \$7,140,000 in exchange for incentives that will be memorialized in a grant agreement between Tier-Rack LLC and the State of Tennessee. New jobs must be in addition to the company's baseline of 0 jobs at the project site in Tennessee.

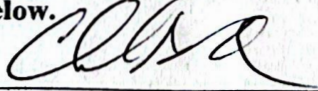
ECD OFFER SUMMARY

FastTrack Economic Development Grant:	\$ 1,000,000
Total ECD Commitment:	\$ 1,000,000

Please sign your name in the space below to signify Tier-Rack LLC's acceptance of ECD's offer set forth above and return it by July 16, 2025, to:

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

Date: 4-29-2025



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

June 23, 2025

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

Dear Comptroller Mumpower:

Pursuant to Tennessee Code Annotated §4-3-717 (d)(1)-(2), I am writing to inform you that the Department of Economic and Community Development is awarding a FastTrack Economic Development Grant to The City of Bradford, Tennessee for the benefit of Tier-Rack LLC in the amount of \$1,000,000 to offset the costs Tier-Rack LLC will incur in building expansion, building retrofit, building improvements, and fixture improvements. The project activities would not be eligible for the FastTrack Infrastructure Development Program.

This project will yield a proportionately significant impact on this rural community due to the number of net new, high wage jobs. Tier-Rack LLC has committed to create 99 net new jobs and make a \$7,140,000 capital investment within five (5) years. The company will have an average hourly wage of \$29.50 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

A handwritten signature in blue ink that reads "Stuart C. McWhorter". The signature is written in a cursive style with a large, stylized "S" at the beginning.

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*			
	ECONOMIC DEVELOPMENT	Industrial Development Board of the City of Morristown, Tennessee	\$1,468,500	
TOTAL			\$1,468,500	

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

***ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity): Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc.**

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

GENERAL STATUTORY COMPLIANCE

1. Will this new commitment cause the FastTrack appropriations to be over-committed T.C.A. § 4-3-716(g)? ☐ Yes ☒ No
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).
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

6/13/25

Date



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

April 17, 2025

INCENTIVE ACCEPTANCE FORM

This form serves as notice that Howmet Castings & Services, Inc.; Howmet Corporation; Howmet Aerospace Inc. intends, in good faith, to create 267 private sector jobs in Morristown, Hamblen County and make a capital investment of \$27,932,000 in exchange for incentives that will be memorialized in a grant agreement between Howmet Castings & Services, Inc.; Howmet Corporation; Howmet Aerospace Inc. and the State of Tennessee. New jobs must be in addition to the company's baseline of 783 jobs at the project site in Tennessee.

ECD OFFER SUMMARY

FastTrack Economic Development Grant:	\$ 1,468,500
Total ECD Commitment:	\$ 1,468,500

Please sign your name in the space below to signify Howmet Castings & Services, Inc.; Howmet Corporation; Howmet Aerospace Inc.'s acceptance of ECD's offer set forth above and return it by July 16, 2025, to:

Tennessee Department of Economic and Community Development
Attn: Sydney Forrest
312 Rosa Parks Avenue, 27th Floor
Nashville, TN 37243
Sydney.Forrest@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: _____ Date: 4/24/2025
(Authorized Representative of Company)

Merrick Murphy
President



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

June 23, 2025

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

Dear Comptroller Mumpower:

Pursuant to Tennessee Code Annotated §4-3-717 (d)(1)-(2), I am writing to inform you that the Department of Economic and Community Development is awarding a FastTrack Economic Development Grant to the Industrial Development Board of the City of Morristown, Tennessee for the benefit of Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc. in the amount of \$1,468,500 to offset the costs Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc. will incur in building expansion, building retrofit, building improvements, and new building construction. The project activities would not be eligible for the FastTrack Infrastructure Development Program.

This project will yield a proportionately significant impact on this community due to the number of net new jobs. Howmet Castings & Services, Inc., Howmet Corporation and Howmet Aerospace Inc. has committed to create 267 net new jobs and make a \$27,932,000 capital investment within 5 years. The company will have an average hourly wage of \$20.52 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

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*			
	ECONOMIC DEVELOPMENT	Industrial Development Board of the City of Morristown, Tennessee	\$800,000	
TOTAL			\$800,000	

(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): Summertown Metals of Morristown, LLC**

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

GENERAL STATUTORY COMPLIANCE

1. Will this new commitment cause the FastTrack appropriations to be over-committed T.C.A. § 4-3-716(g)? ☐ Yes ☒ No
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).
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

6/13/25

Date



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

January 21, 2025

INCENTIVE ACCEPTANCE FORM

This form serves as notice that Summertown Metals of Morristown, LLC intends, in good faith, to create 170 private sector jobs in Morristown, Hamblen County and make a capital investment of \$22,625,000 in exchange for incentives that will be memorialized in a grant agreement between Summertown Metals of Morristown, LLC and the State of Tennessee. New jobs must be in addition to the company's baseline of 0 jobs at the project site in Tennessee.

ECD OFFER SUMMARY

FastTrack Economic Development Grant:	\$ 800,000
Total ECD Commitment:	\$ 800,000

Please sign your name in the space below to signify Summertown Metals of Morristown, LLC's acceptance of ECD's offer set forth above and return it by April 21, 2025, to:

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

Date: 1-24-25



Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

June 23, 2025

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

Dear Comptroller Mumpower:

Pursuant to Tennessee Code Annotated §4-3-717 (d)(1)-(2), I am writing to inform you that the Department of Economic and Community Development is awarding a FastTrack Economic Development Grant to the Industrial Development Board of the City of Morristown, Tennessee for the benefit of Summertown Metals of Morristown, LLC in the amount of \$800,000 to offset the costs Summertown Metals of Morristown, LLC will incur in new building construction. The project activities would not be eligible for the FastTrack Infrastructure Development Program.

This project will yield a proportionately significant impact on this community due to the number of net new, high wage jobs. Summertown Metals of Morristown, LLC has committed to create 170 net new jobs and make a \$22,625,000 capital investment within 5 years. The company will have an average hourly wage of \$27.86 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

A handwritten signature in blue ink that reads "Stuart C. McWhorter". The signature is written in a cursive, flowing style.

Stuart McWhorter

SM/js

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2025-2026
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 2025-2026 is attached.

Total amount of bonds or notes reflected on Schedule
of Financing for Fiscal Year 2025-2026:

\$550,000,000

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2025-2026

ISSUE 2025-2 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
September 2025

Sources of Funds

Proceeds of the Issue	\$ 300,000,000
-----------------------	----------------

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 300,000,000
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 2026-1 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
March 2026

Sources of Funds

Proceeds of the Issue	\$ 250,000,000
-----------------------	----------------

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$ 250,000,000
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

Single Family Bonds Sold in FY 2024-2025

	\$255,525,000*	Issue 2024-3 Residential Finance Program Bonds, Dated December 11, 2024
	\$250,000,000*	Issue 2025-1 Residential Finance Program Bonds, Dated May 29, 2025
TOTAL	<u>\$505,525,000</u>	

*Issue 2024-3 included a taxable amount of \$31,250,000 and two convertible option bonds (preserving tax-exempt volume cap) totaling \$224,375,000. Issue 2025-1 included a taxable amount of \$50,000,000.

Multifamily Bonds Sold in FY 2024-2025 \$ 0

**Volume Cap Used by Local Issuers
For Multi-Family Housing in 2024** \$510,951,205 From THDA's 2023 Volume Cap Allocation

**Volume Cap Available to Local Issuers
For Multi-Family Housing in 2025** \$594,395,817 From THDA's 2024 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, and 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 ($1\frac{1}{8}\%$). 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 2024, volume cap carried forward from

2021 will be used. For bond issues in calendar year 2025, volume cap THDA carried forward from 2022 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, from the maximum spread, for such purpose under the 2013 General Resolution, 1985 General Resolution or the 2009 General Resolution.

**RESOLUTION ALLOCATING FROM THE DEBT SERVICE FUND
TO THE CAPITAL PROJECTS FUND \$154,564.00
AND CANCELING AUTHORIZED BONDS**

Recitals

The State of Tennessee, acting by resolution of its State Funding Board (the “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 Zero Cents (\$295,000,000.00) of which Seven Million Dollars and Zero 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 (“UM”).

The Board has canceled Five Million, Seven Hundred Seventy-Three Thousand, Five Hundred Two Dollars and Three Cents (\$5,773,502.03) of the Item 3 Bonds. None of the remaining One Million, Two Hundred Twenty-Six Thousand, Four Hundred Ninety-Seven Dollars and Ninety-Seven Cents (\$1,226,497.97) 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 May 29, 2025, the Commissioner of Finance and Administration notified the Board that UM has paid One Hundred Fifty-Four Thousand, Five Hundred Sixty-Four Dollars and Zero Cents (\$154,564.00) into the Debt Service Fund in accordance with an agreement between UM and the 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, 2025 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 One Hundred Fifty-Four Thousand, Five Hundred Sixty-Four Dollars and Zero Cents (\$154,564.00) is no longer needed to fund such authorized project.
2. One Hundred Fifty-Four Thousand, Five Hundred Sixty-Four Dollars and Zero Cents (\$154,564.00) in accordance with the authority provided by Tenn. Code Ann. § 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 Tenn. Code Ann. § 9-9-208, and the memorandum from the Commissioner of Finance and Administration dated May 29, 2025, the Board hereby cancels One Hundred Fifty-Four Thousand, Five Hundred Sixty-Four Dollars and Zero Cents (\$154,564.00) of the principal amount authorized by the 2007 Act for the Item 3 Bonds.
4. This resolution shall be effective as of June 23, 2025, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 23, 2025.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

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

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

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

WHEREAS, the method of apportionment of net worth contained in Section 67-4-2111(l), Tennessee Code Annotated (the “Subsection”), which method applies to tax years beginning on or after January 1, 2017, is expected by the Department of Finance and Administration to result in a decrease in the Franchise Tax Proceeds for the fiscal year 2025-2026; 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 to 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 2025-2026 will be sufficient to provide funds adequate to meet all payments required to be made by the State Funding Board in such fiscal year, as well as to provide for the other obligations and expenses of the State for such fiscal year to be defrayed therefrom.

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



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

**JIM BRYSON
COMMISSIONER**

June 3, 2025

MEMORANDUM

TO: The Honorable Jason E. Mumpower, Secretary State Funding Board
FROM: Jim Bryson, Commissioner *Jim Bryson*
SUBJECT: Franchise Tax Reduction *JB*

This memorandum shall serve as confirmation of the following:

1. All payments due pursuant to Tennessee Code Annotated Title 9, Chapter 9 have been made in full;
2. The State is not in default in the payment of any outstanding debt or in the payment of interest thereon; and
3. Notwithstanding the lowering of the collections in the taxes imposed by the franchise tax law compiled in Title 67, Chapter 4, Part 21, Tennessee Code Annotated, such collections will be fully sufficient to provide funds adequate to meet all payments required to be made by the State Funding Board in the upcoming fiscal year and to provide for the other obligations of the State in Fiscal Year 2025-2026.

JB:DT:ml

cc: Comptroller – Division of State Government Finance
F&A – Division of Budget

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATE OF TENNESSEE**



DAVID H. LILLARD, JR.
STATE TREASURER

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

MARY JO PRICE
CHIEF OPERATING OFFICER

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

JAMIE WAYMAN
DIRECTOR OF TCRS

June 2, 2025

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, 2026.

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".

Michael Brakebill, CFA, CAIA
Chief Investment Officer



JASON E. MUMPOWER
Comptroller

June 23, 2025

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, 2026.

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, 2026.

Sincerely,

Jason E. Mumpower
Secretary, Tennessee State Funding Board



JASON E. MUMPOWER
Comptroller

Date: June 23, 2025
To: Members of the State Funding Board
From: Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Ms. Sheila Reed, Director, Division of Local Government Finance
Subject: Update to the *Tennessee Budget Manual for Local Governments*

The Comptroller's Division of Local Government Finance (LGF) presents the following changes to the *Tennessee Budget Manual for Local Governments* for approval by the Tennessee State Funding Board:

Page(s)	Description
6-7	Updates annual budget submission requirements.
8	Adds additional examples for conditionally approved budgets.
9	Updates available online resources provided by LGF.
31-32	Adds a new financial health metric for municipalities with debt that do not levy a property tax. Also adds financial health metrics for utility systems operated by local governments. This supports the Comptroller's proactive policy for supporting financial health for Tennessee's local governments.
Various	Removes reference to LGF's email address for budget submissions in recognition of the Comptroller's new online submission process.
Various	Replaces, removes, and corrects different wording throughout the manual as part of our normal editing process.



TENNESSEE BUDGET MANUAL FOR LOCAL GOVERNMENTS



Approved by the State Funding Board



Jason E. Mumpower
Comptroller of the Treasury



**DIVISION OF
LOCAL GOVERNMENT FINANCE**

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Section 1 – Introduction

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 ~~July 22, 2024~~ June 23, 2025, is the ~~third~~fourth 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 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. The budget, along~~ with the other required documents described below, ~~should be electronically submitted~~ 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. 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~~~~
1. Comptroller's budget submission worksheet.
2. Signed/certified copy of the appropriation act and tax levy (ordinance or resolution).
3. Separate resolution(s) for non-appropriated proprietary/enterprise funds, when applicable.
4. Detailed budgets for all funds, including proprietary/enterprise funds and school funds, as applicable.
5. 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](#) for guidance in making this determination.
6. Documentation to support the Tennessee Investment in Student Achievement (TISA) Act local contribution, when applicable. ~~Budget Summary Schedule.~~
7. 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.

b.d. Any fund as requested by our Office during our review of the annual budget.

e.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.

8. ~~Schedule of Outstanding Debt and Budgeted Debt Service, as applicable.~~

9. ~~Revenue forecasts for property and sales tax for the budget year, as applicable.~~

Example A Microsoft Excel templates that includes the for the required schedules submission items referred to above are 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~~

1. Comptroller's budget submission worksheet.

2. Resolution adopting the budget.

a. The governing board must take official action by resolution to adopt its annual budget. 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 (or systems), a budget for each fund (or system) must be submitted.

~~4. Schedule of Outstanding Debt and Budgeted Debt Service, as applicable.~~

~~Budgets should be submitted as one document.~~ 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. 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 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, to correct an unbalanced budget, to eliminate a financial distress concern, and to reflect reasonable estimates. Your local government will have 45 days after our letter is issued to meet the condition(s). If ~~any~~ the condition for approval is not met within that timeframe, the budget will not be approved.

For Cities: Pursuant to Tenn. Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance (See sample resolution in Appendix 9).

Not Approved: A budget that is not approved may be the result of a delinquent budget, a delinquent audit, continued noncompliance issues while under the oversight of the 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. 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, 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 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

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.

*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. If concerns are identified in these areas, it will impact your local government's eligibility to receive a certificate. Monitoring is fundamental to the budget process. Accordingly, as part of our review, we look to see if your local government amends its budget at the legal level of spending throughout the year, as evidenced by your most recent audit. Likewise, concerns related to the other areas listed above will impact your local government's eligibility to receive a certificate.

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 preparation and monitoring process, as well as the financial health of your local government, the Comptroller's Office has developed multiple tools and resources, including but not limited to: sample budget ordinance and resolution templates, revenue and expenditure/expense forecasting tools, best practices, and instructional videos. These resources are available at: tncot.cc/budget and will continue to be expanded. ~~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](#).~~

~~We also have helpful documents, 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

The Comptroller's Division of Local Government Finance serves as staff to the Tennessee Board of Utility Regulation (TBOUR). Information about TBOUR is available on the Comptroller's website: www.comptroller.tn.gov.

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

The Board addresses certain complaints by utility 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 and reviewed 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.

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. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

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 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
§ 7-36-113 (i)(1) – Municipal Energy Authorities
§ 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. The Division of Local Government Audit within the Comptroller's Office maintains a uniform chart of accounts for counties and municipalities: 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 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.

Section 5 – Budget Laws

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](#).

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 Tennessee Board of Utility Regulation. The different charter forms in the state of Tennessee are:

- General Utility District Law of 1937 (Tenn. Code Ann. § 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.

Section 6 – The Budget Process

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](#) 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 on 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 ([see Appendix 8 for tips on adopting the budget 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 the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. 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. 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](#) 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](#) 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, 7-36-113, 7-82-501, 68-221-611, 68-221-1306). For smaller governments that maintain their accounting records on the cash basis, a budgetary cash basis is acceptable, for governmental funds, 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. 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 other operations of the local government. Any unlawful use of utility revenue is subject either to immediate repayment or the submission of a corrective action plan not to exceed five years as approved by, and overseen by, the State Comptroller. 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. Title 9, Chapter 21, Part 3 are subject to the same statutory requirements.

Oversight by Tennessee Board of Utility Regulation

Water, wastewater, and natural gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR).

Statutes require the State Comptroller to refer governmental water, sewer, and natural gas systems that are in financial distress to the TBOUR, [respectively](#), for oversight and corrective action (Tenn. Code Ann. § 7-82-703). 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.

TBOUR exercises oversight by ensuring the financial sustainability of Tennessee's utility systems. The board has 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 unrestricted net position and 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 policies 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 the Detailed Budget

The State Department of Education provides both guidance and oversight related to federal grants administered by the local board of education. Accordingly, tThere are two acceptable practices for appropriating expenditures accounted for in the School Federal Projects Fund (SFPF):

1. Expenditures may be appropriated in the annual budget resolution or ordinance in the same manner as other special revenue funds.
2. Alternatively, language may be included within the appropriation section of the annual budget resolution or ordinance stating, "the budget for the School Federal Projects Fund shall be the budget and all amendments approved for separate projects within the Fund by the Tennessee Department of Education and the local Board of Education." ~~The State Department of Education provides both guidance and oversight related to federal grants administered by the local board of education.~~

The format of the detailed budget for the SFPF should follow the budget policies of the local government. The detailed budget for the SFPF is not required to be included in the annual budget submission to the Comptroller's Office; however, a cash flow analysis will be requested from the local government when its most recent audit identifies a cash overdraft or interfund balance in the SFPF. Refer to the next section on the importance of funding the grant reimbursement cycle.

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. [Additionally, pursuant to Tenn.](#)

[Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance \(See sample resolution in Appendix 9\).](#)

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, and some private acts 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
- 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

Water, wastewater, and gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts (“utility systems”) are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR)

Statutes require that the Comptroller’s Office refer utility systems that are in financial distress to the TBOUR, ~~respectively~~, for oversight and corrective action (Tenn. Code Ann. § 7-82-703).

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-unrestricted~~ net position balance
- Deficit total net position balance
- Default on debt

Local officials are statutorily required to comply with the directives of the ~~respective utility board~~ TBOUR to restore the fiscal health of the utility system. Utility systems may also be referred to TBOUR for other reasons, including, but not limited to, excessive water loss, ~~failure to receive required board member training~~, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

Section 7 – Best Practices

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 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 Health Metrics	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Above 15%	15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Do we have the ability to pay short-term obligations?	Less than 25%	25% to 75%	Greater than 75%
Debt as a Percent of Assessed Value	How burdensome is our 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? (A concern exists when cash reserves are low)	Positive value	Decrease of 0% to 2%	Decrease greater than 2%

For Governmental Operating Funds				
(General Fund, General Purpose School Fund, and Other Funds with Recurring Payroll Expenditures)				
Financial Health Metric	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Do we have the ability to pay short-term obligations?	Less than 25%	25% to 75%	Greater than 75%
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exists when cash reserves are low.)	Positive	Decrease of 0% to 2%	Decrease greater than 2%
For Counties, Metros, and Municipalities with a Property Tax - General Governmental Debt as a Percent of Assessed Value*	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Municipalities without a Property Tax - General Governmental Debt as a Percent of Median Household Income	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%

For Utility Systems				
(Operated by a City/Town, County, Metro Govt, Utility District, Authority, or Joint Venture)				
Financial Health Metric	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Cash Expenses	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Assets as a Percent of Current Liabilities	Do we have the ability to pay short-term obligations?	Greater than 1.25x	1.0x to 1.25x	Less than 1.25x
Statutory Change in Net Position as a Percent of Operating Revenue for Systems under TBOUR Jurisdiction	Are my rates sufficient to cause a positive statutory change in net position?	Positive	N/A	Negative
Business Type Activity Debt Coverage Ratio**	Do we have revenues sufficient to cover debt service?	Greater than 1.20x	N/A	Less than 1.20X

* Debt as a Percent of Assessed Value is calculated as: total general governmental debt divided by total assessed value of property in the local government as reported by the Comptroller on the Tax Aggregate Report.

** Debt Coverage Ratio is calculated as annual operating revenues minus annual operating expenses excluding depreciation divided by annual debt service (principal and interest) payments.

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 [not](#) 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)**
8. **Adopting the Budget During a Reappraisal Year**
9. **Budget Resolution for Cities Adopting
Comptroller Required Changes**

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 for the year do not exceed expenditures and beginning fund balances. 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 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) Policies
- 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 Policies

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 the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. 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 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 amend its budget to ensure obligations are met 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

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 Tennessee Board of Utility Regulation.

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 Tennessee Board of Utility Regulation.

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 Tennessee Board of Utility Regulation.

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.

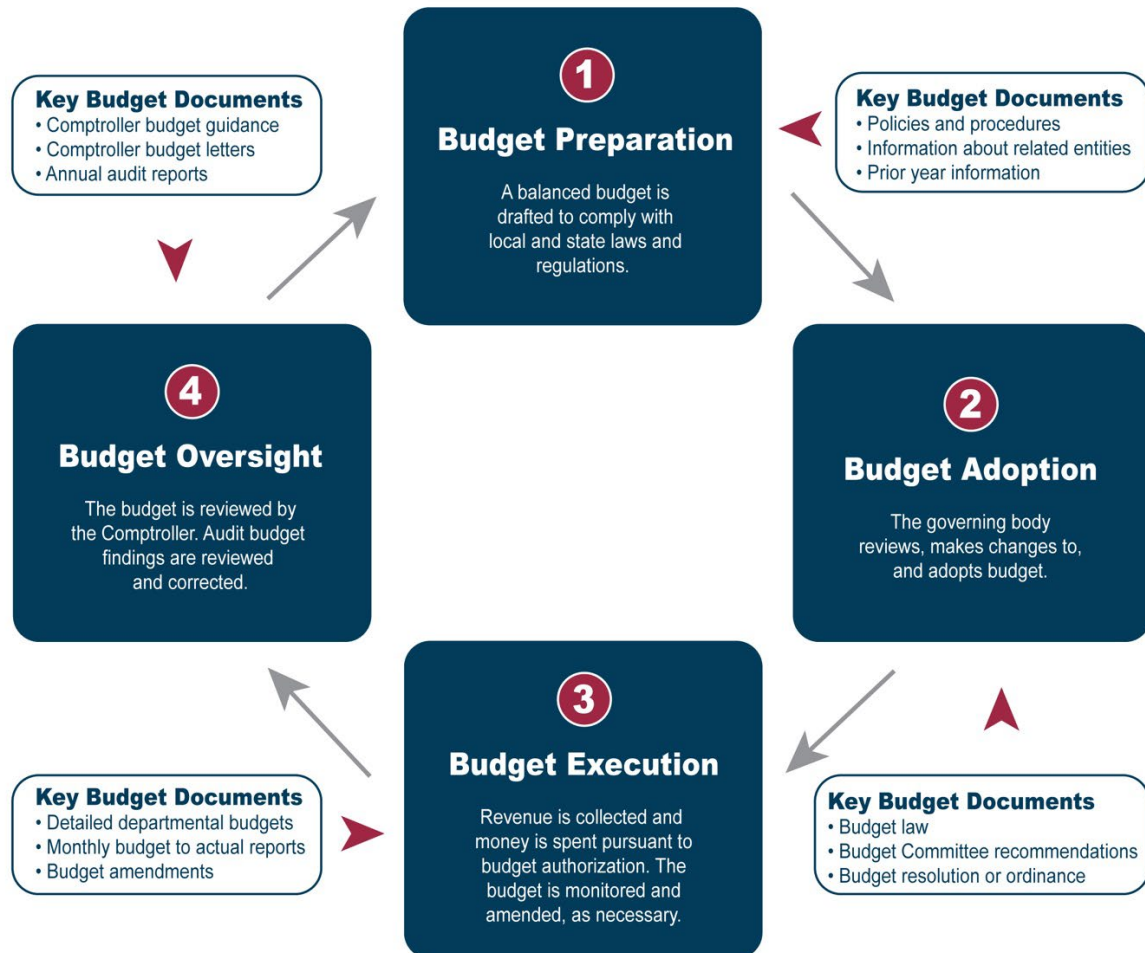
Tenn. Code Ann. § 6-35-310

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



Appendix 8

Adopting the Budget During a Reappraisal Year

At specified intervals, counties in Tennessee must revalue land and buildings for property tax purposes. This is referred to as a reappraisal year. In a reappraisal year, the Tennessee State Board of Equalization ([SBOE](#)) gives each taxing jurisdiction a Certified Tax Rate (CTR) as prescribed by Tenn. Code Ann. Title 67, Chapter 5, Part 17. The CTR is designed to ensure to the taxpayers that there is no tax increase hidden in the reappraisal, accordingly, the CTR will generate property tax revenue consistent with the prior year. Newly taxable real and personal property are backed out of CTR calculation but will generate additional property tax revenue. This document examines the impact of the CTR on the annual budget adoption process.

Budgets for counties and municipalities should be adopted on or before June 30 of each year. When the CTR will not be available at the time of budget adoption, local officials should proceed to adopt the budget in a timely manner and then follow the steps provided by the State Board of Equalization for adoption of the tax rate when the CTR is available.

DEFINED TERMS

County Assessor—an elected official whose role is to accurately identify, list, appraise, and classify all taxable properties in preparation of the annual assessment roll. The county assessor plays an important role in calculating the certified tax rate.

Certified Tax Rate (CTR)—the rate, as calculated by the county assessor and chief executive of the tax jurisdiction and reviewed by the Tennessee State Board of Equalization, that represents the tax rate needed to collect property tax revenues consistent with the prior year after a reappraisal of property values. The certified tax rate can only be exceeded after the notification of and the holding of a public hearing.

Certified Tax Rate (CTR) Law—requires local governments to conduct public hearings before adopting a property tax rate that generates more taxes overall in a reappraisal year than were billed the year before at the previous year's lower values. The CTR law is codified in Tenn. Code Ann. § 67-5-1701 and sometimes referred to as the truth-in-taxation law. The law requires counties and cities to determine a tax neutral rate using the new reappraisal values after adjusting for either new properties or properties removed from the tax base since the prior year. Truth-in-taxation is intended to make sure higher reappraisal values do not automatically result in a tax increase.

Once a certified rate is calculated by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. If the budget requires an increase above the certified rate, the governing body must publish notice of a public hearing on whether to exceed the certified rate and then may proceed to adopt an actual tax rate after the hearing. If the certified tax rate is exceeded, the jurisdiction must send the State Board of Equalization an affidavit of publication for the hearing notice, and a certified copy of the final

tax rate ordinance or resolution. State Board of Equalization's website:
<https://comptroller.tn.gov/boards/state-board-of-equalization.html>.

HOW TO ADOPT A TIMELY BUDGET WHEN THE CTR IS NOT YET AVAILABLE

Adopting the Certified Tax Rate (CTR)

Local officials adopt the CTR when they need a property tax rate that will generate revenue consistent with the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important not to include an estimated rate in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate after obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend that the legal budget document include language stating that the governing body plans to adopt the CTR when it is available and a brief description of how the property tax revenue estimate was determined.
- Once the CTR is available, officials should follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to [the Division of Local Government Finance. LGF@cet.tn.gov](mailto:LGF@cet.tn.gov).

Exceeding the Certified Tax Rate (CTR)

Local officials adopt a rate that is higher than the CTR when they need a property tax rate that will generate more revenue than the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue. State law requires a public hearing with specific public notice of intent to exceed the CTR before a rate higher than the CTR is adopted by the governing body.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's revenue *and* (2) the planned increase (penny rate times the number of pennies increased) *and* (3) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.

- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important **not** to include an estimated **rate** in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate **after** obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend language in the legal budget document stating that the governing body plans to adopt a rate that exceeds the CTR when it is available and a brief description of how the property tax revenue estimate was determined.
- Once the CTR is available, a public hearing must be held to notify the public of the governing body's intention to exceed the CTR.
- After the public hearing, follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to both the SBOE and [the Division of Local Government Finance.LGF@cot.tn.gov](mailto:LGF@cot.tn.gov).

What if the governing body fails to adopt a rate that exceeds the CTR?

After the public hearing, the governing body may ultimately decide to vote against a property tax rate that exceeds the CTR.

Budget Impact:

- The initial property tax revenue estimate will need to be decreased by budget amendment to the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- If the tax increase that failed would have funded new spending, then expenditures must also be reduced by budget amendment, or fund balance used to balance the budget. Use of fund balance is appropriate when there are adequate reserves, and the proposed use complies with the local government's fund balance policy. See the Comptroller's publication "Seven Keys to a Fiscally Well-Managed Budget" ([7-Keys](#)).
- Once the CTR is available, follow the steps outlined [by the](#) State Board of Equalization (SBOE) and submit the tax levy resolution or ordinance to both the SBOE and [the Division of Local Government Finance.LGF@cot.tn.gov](mailto:LGF@cot.tn.gov).

Municipalities Located in More Than One County

A municipality located in more than one county may have counties with different reappraisal cycles. When this happens, local officials will need to apply the steps above for the impacted tax rate.

Conclusion

Timely budget adoption is key to good financial management and this publication is meant to facilitate timely budget adoption in reappraisal years when the CTR is delayed beyond June 30. The budget should be adopted before the start of the fiscal year and submitted to the Comptroller's Division of Local Government Finance within 15 days of adoption. In a reappraisal year, the property tax **rate** should be adopted as soon as possible **after** receiving the CTR from the State Board of Equalization. This may result in local governments submitting the

tax rate adoption separately from and later than the initial budget submission. Please note that this will not adversely impact local governments that pursue the Comptroller's Annual Budget Certificate.

Appendix 9

Resolution No. _____

A Resolution of

_____, Tennessee
(Name of Municipality)

Amending the Fiscal Year 20__ Budget

WHEREAS the governing body adopted the fiscal year 20__ budget by ordinance number _____ on _____, ____, 20__ and submitted the budget to the Tennessee Comptroller of the Treasury, Division of Local Government Finance, for review.

WHEREAS the Tennessee Comptroller's Division of Local Government Finance has required an amendment to the budget pursuant to Tenn. Code Ann. § 9-21-403.

WHEREAS pursuant to Tenn. Code Ann. § 9-21-108, at the direction of the Tennessee Comptroller of the Treasury, or the Comptroller's designee, any budget amendment required pursuant to Tenn. Code Ann. § 9-21-403 may be made by resolution of the governing body.

WHEREAS pursuant to the Tennessee Budget Manual for Local Governments, to be eligible for approval, the budget must be amended by resolution and returned to the Tennessee Comptroller's Division of Local Government Finance within 45 days of the date of the letter requiring the amendment. Should the budget not be approved, the municipality will not be able to issue debt beyond an emergency financing preapproved by the Comptroller's Division of Local Government Finance.

WHEREAS adoption of a budget amendment by resolution is permitted by state law to meet a condition for approval of the annual budget by the Tennessee Comptroller of the Treasury, or the Comptroller's designee, and all other budget amendments shall be made consistent with the public and/or private act(s) that govern the budget adoption and amendment process of the municipality.

NOW, THEREFORE, be it resolved by the governing body that it hereby adopts the following changes to the fiscal year _____ budget:

(insert amendatory language)

Duly passed and adopted by the governing body this _____ day of _____, 20____.

Signed _____

Printed Name _____

Mayor

Attested

Signed _____

Printed Name _____

City Recorder



JASON E. MUMPOWER
Comptroller

Date: June 23, 2025
To: Members of the State Funding Board
From: Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Ms. Sheila Reed, Director, Division of Local Government Finance
Subject: Update to the *Tennessee Debt Manual for Local Governments*

The Comptroller's Division of Local Government Finance (LGF) presents the following changes, effective July 1, 2025, to the *Tennessee Debt Manual for Local Governments* for approval by the Tennessee State Funding Board:

Page(s)	Description
32-34	Adds guidance for the issuance of revenue anticipation notes for utility systems operated by local governments when there is an emergency cash flow need. This is a policy change resulting from new legislation (Public Acts 2025, Ch. 170) .
47-48	Clarifies existing requirements for requesting a report from the Comptroller's Office on a plan of financing.
50-51	Adds guidance for reporting events of default, covenant violations, and credit rating downgrades to the Comptroller's Office. This is a policy change resulting from new legislation (Public Acts 2025, Ch. 17).
51-52	Adds guidance for local governments to follow when requesting approval from the Comptroller's Office to issue debt with identifiable risks to the local government. This is a policy change resulting from new legislation (Public Acts 2025, Ch. 218).
53	Adds guidance for local governments to follow when requesting approval for an emergency financing. Local governments may not issue debt without an approved budget, apart from an emergency financing need that is reviewed for approval by the Comptroller's Office. Adds to the debt manual a policy that is already in place.

June 23, 2025

Memorandum to State Funding Board

Update to the *Tennessee Debt Manual for Local Governments*

Page 2

60-61	Adds a new financial health metric for municipalities that have debt but do not levy a property tax. Also adds financial health metrics for utility systems operated by local governments. This supports the Comptroller's proactive policy for supporting financial health for Tennessee's local governments.
90-91	Updates balloon indebtedness flowchart to reflect a policy change resulting from new legislation (Public Acts 2025, Ch. 218). Put options are now identified as heightened risk debt and not balloon debt.
Various	Replaces, removes, and corrects different wording throughout the manual as part of our normal editing process.



TENNESSEE DEBT MANUAL FOR LOCAL GOVERNMENTS



*Approved by the State Funding Board
June 2023*

July 2025

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^{al} 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 27, 2023~~ June 23, 2025, is the ~~third~~ second edition issued pursuant to Tenn. Code Ann. § 4-3-305 and is dated and effective July 1, 2025.

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~~ local government issuers should ~~be addressed to~~ 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 governments ~~entities~~ are generally allowed to borrow for the payment of operating expenses on a short-term basis, in anticipation of current year revenues and must be repaid, in most cases, within the fiscal year the funds are borrowed~~which is usually less than a year~~. Only in rare circumstances can local governments ~~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.

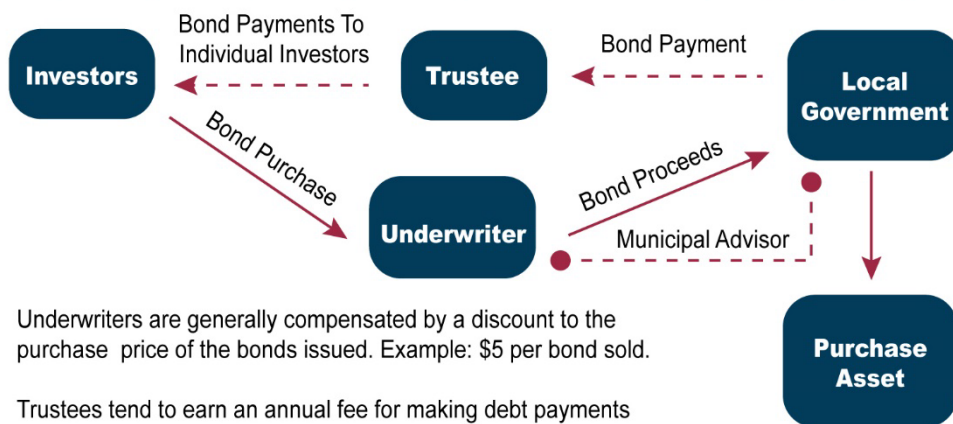
The most common types of debt instruments in Tennessee are the following:

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 [capital](#) 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 [the](#) 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, [but no longer than the estimated useful life of the capital asset being financed](#).

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 an asset on a local government entity's balance sheet. The distinction between financing 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.

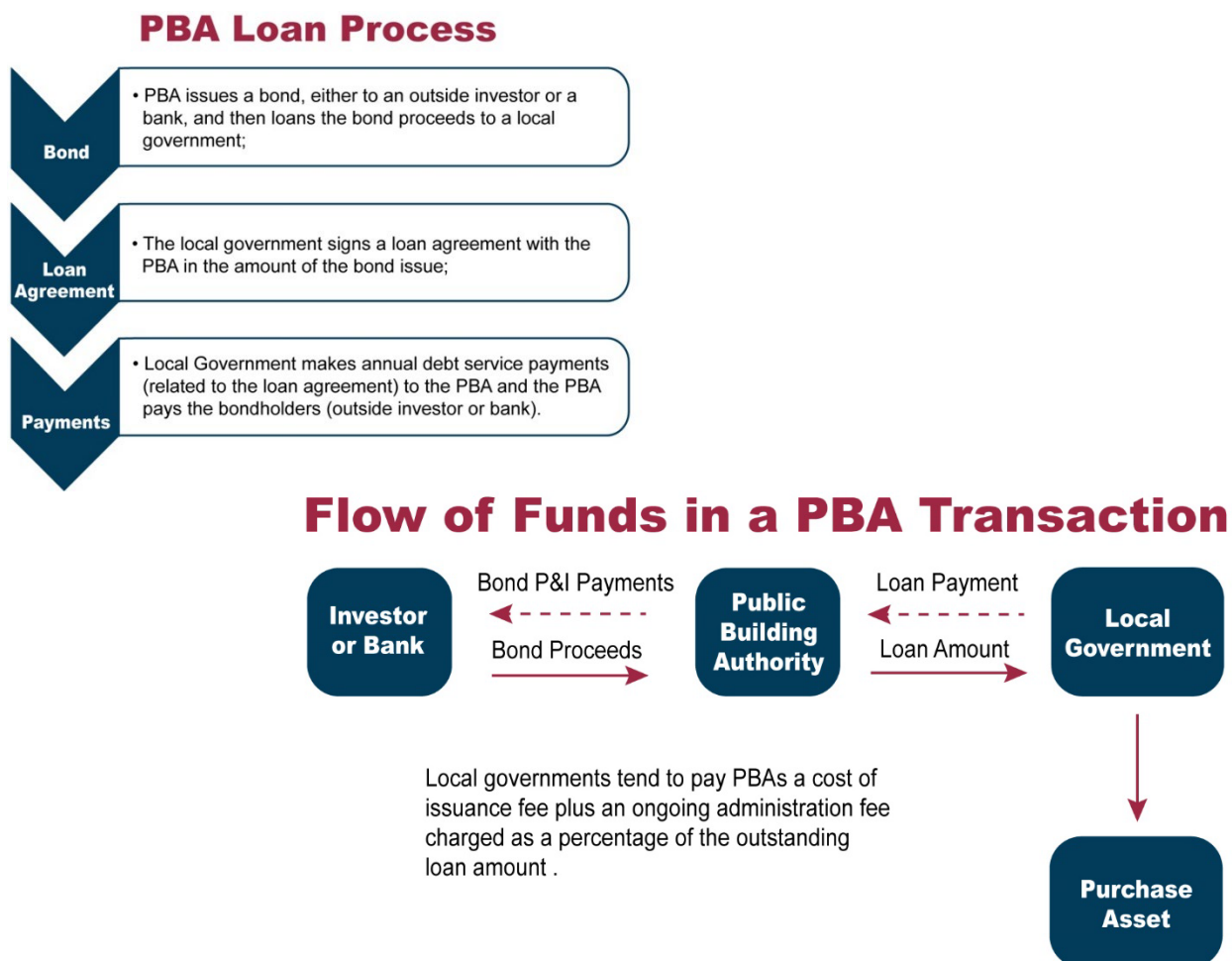
In addition, any financing leases entered into by certain local government entities that are not classified as exempt under the "Uniformity in Local Government Lease Financing Act of 2021," must be reviewed and approved by the Comptroller's Office prior to approval by the local governing body. See Section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

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.



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 Authority	Statutory Authority to Issue Debt	Taxing Power	Types of Debt Issued
City	Title 6/Private Act	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 10	Yes	GO and Revenue
County	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 Government	Title 7	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 11; Title 49, Chapter 3, Part 11	Yes	GO and Revenue
Utility District	Title 7, Chapter 82, Part 2; Private Act, Public Act	Title 7, Chapter 82, Part 5	No	Revenue
Emergency Communication District	Title 7, Chapter 86, Part 1	7-86-114	No	Revenue
Health, Education and Housing Facility Corporation (HEHFB)	Title 48, Chapter 101, Part 3	48-101-308(10)	No (TIF)	Revenue
Housing Authority	Title 13, Chapter 20	Title 13, Chapter 20, Part 6 & 7	Depends on Act	Revenue
Special School District	Private Acts	Private Acts	No	Depends on Act
Industrial Development Board	Title 7, Chapter 53, Part 2	Title 7, Chapter 53, Part 3	No	Revenue
Public Building Authority	Title 12, Chapter 10	Title 12, Chapter 10	No (Yes through city/county)	Revenue
Hospital	Various; Private Act; Title 7, Chapter 57	7-57-304(1) through 9-21; or if issued by City/County 9-21	No	Revenue (GO with city/county)
Municipal Energy Authority	Title 7, Chapter 36	Title 7, Chapter 36	No	Revenue
Water and Wastewater Treatment Authority	Title 68, Chapter 221, Part 6; Private Act, Public Act	Title 68, Chapter 221, Part 6	No	Revenue
Regional Water and Wastewater Treatment Authority	Title 68, Chapter 221, Part 7	Title 68, Chapter 221, Part 7	No	Revenue
Local Government Authorities				
Airport Authority	Title 42, Chapters 3, Part 1	Title 42, Chapter 3, Part 1, through 9-21-301	No	Revenue
Convention Center	Title 7, Chapter 89	Title 7, Chapter 89	No	Revenue
Port Authority	Title 7, Chapter 87	Title 7, Chapter 87	No	Revenue
Parking Authority	Title 7, Chapter 65	Title 7, Chapter 65	No	GO and Revenue
Sports Authority	Title 7, Chapter 67	Title 7, Chapter 67		Revenue
Central Business Improvement District	Title 7, Chapter 84, Part 3	Title 7, Chapter 84, Part 3	Through Municipality	Revenue
Energy Acquisition Corporation	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	Title 7, Chapter 41, Part 1	*See note below.	No	Revenue
Tourism Development Authority	Title 7, Chapter 69, Part 1	7-69-111 through 9-21	No	Revenue
Medical School Authority	Title 7, Chapter 90, Part 1	7-90-112	No	Revenue
Other Local Government Instrumentalities				
Soil and Water Conservation District	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	No	Revenue
Development District	Title 13, Chapter 14, Part 1	13-14-107(b)	No	Revenue
Flood Control Authority	Title 64, Chapter 3	Title 64, Chapter 3	No	Revenue
Railroad Authority	Title 64, Chapter 2	Title 64, Chapter 2	No	Revenue
River Basin Development Authority	Title 64, Chapter 1	Various Parts	No	Revenue
TN River 4-County Port Authority	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	Title 64, Chapter 6	64-6-106(b)	No	Revenue
Regional Transportation Authority	Title 64, Chapter 8, Part 1	Title 64, Chapter 8, Part 1	No	Revenue
Regional Marketing Authority	Title 64, Chapter 10	Title 64, Chapter 10	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, Educational, and Housing Facility Boards (HEHFB)**—HEHFBs are created by a city and/or county to facilitate 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 Authorities**—Water and wastewater treatment authorities are created by cities, counties, and/or metropolitan governments or by private act to provide water or sewer 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 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 in Section 3](#), 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 by the~~.

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/bids](#) 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 49](#)) 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, Emergency Cash Flow	T.C.A. §§ 7-34-111; 7-36-113; 7-82-501; 68-221-611; 68-221-1311
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 [and certain Revenue 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 or 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~~ does not exceed 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.
 - 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.
- 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 information needed is received.
2. Once the review process is complete, the local government will receive a letter via e-mail from 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. The form should be completed using the Comptroller's online application located at tncot.cc/debt-report. 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.~~
2. Debt Management Policy Revisions (when applicable)
Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

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~~designer.

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. Adopted Resolution

The adopted, 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, 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 [the](#) statutory requirements of Tenn. Code Ann. § 9-21-604.
 - Level debt service payments (specifically, [the amount for annual](#) 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~~ [does not exceed](#) 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 [project](#) (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(s) 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 amount and 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 when financing several capital assets that have different estimated useful lives.

✓ 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~~ information needed 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 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, and the local government still plans to issue the notes, then a new ~~draft~~ note resolution must be ~~prepared~~ adopted 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. The form should be completed using the Comptroller's online application located at tncot.cc/debt-report.

- ~~3. 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.~~

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

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~~ does not exceed 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~~to 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~~information needed is received.
2. Once the review process is complete, the local government will receive a letter via e-mail from 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, and the local government still plans to issue the notes, then 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. The form should be completed using the Comptroller's online application located at 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.~~

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the

Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)
Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

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~~ does not exceed 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 the amount of budgeted electric power or gas purchases that will be used to calculate the 60% limitation should be included – 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~~information needed 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 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. The form should be completed using the Comptroller’s online application located at 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.~~

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

f. Revenue Anticipation Notes (RANs) for Emergency Cash Flow

Pursuant to Tenn. Code Ann. §§ 7-34-111, 7-36-113, and 7-82-501, 68-221-611; and 68-221-1311, cities and counties that operate water, sewer, or gas systems, as well as municipal energy authorities, utility districts, water and wastewater authorities, and regional water and wastewater authorities, may issue Revenue Anticipation Notes (RANs) for emergency cash flow, which require the approval of the Comptroller's Office.

✓ STEP ONE – Submission Requirements for Approval – RAN for Emergency Cash Flow

Local governments seeking approval to issue RANs for emergency cash flow needs 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 for emergency cash flow needs 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 and Series of the notes.
- Not to exceed dollar amount. Such amount must not exceed 60% of the total projected cash for that same period. – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), 7-82-501, 68-221-611, and 68-221-1311.
- Term – Planned amortization of the notes that does not exceed 12 months from the date of issuance – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), 7-

82-501, 68-221-611, and 68-221-1311. Note: The 12-month period does not have to mirror the entity's fiscal year.

- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Security – The notes shall be secured by the revenues of the utility system.
- Date of approval by the governing body.
- Relevant signatures and certification.

3. Projected Cash Flow Schedules

Cash flow projections showing the amount that will be used to calculate the 60% limitation. The projections should be by individual month for both the 12-month term of the proposed RAN, and for the preceding 12-month period, or as otherwise required by the Comptroller's Office.

✓ STEP TWO – Approval by the Comptroller's Office – RAN for Emergency Cash Flow

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. RANs issued for emergency cash flow needs must not exceed 60% of total projected cash flows of the 12-month period – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), 7-82-501, 68-221-611; and 68-221-1311.
3. Once the review process is complete, the local government will receive a letter via e-mail from 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, and the local government still plans to issue the RANs, 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.
5. If approved the following will apply:
 - The Division of Local Government Finance, in consultation with the local government, shall develop a corrective action plan by which the local government must abide. The corrective action plan takes effect at the time the RANs are approved and remains in effect as long as the notes are outstanding and until the utility system, in the discretion of LGF, has adequate cash reserves and an adequate cash management plan.

- The Division of Local Government Finance shall refer the local government to the Tennessee Board of Utility Regulation (TBOUR). TBOUR may review the system and order appropriate remedial measures, as set forth in Tenn. Code Ann. § 7-82-706.

✓ STEP THREE – Submission Requirements after Approval – RAN for Emergency Cash Flow

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. The form should be completed using the Comptroller’s online application located at tncot.cc/debt-report.

2. Documentation of Repayment

The RANs must be repaid no later than 12 months from the date of issuance and local officials are required to provide documentation of repayment to the Division of Local Government Finance at LGF@cot.tn.gov within 15 days of repayment.

3. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

4. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller’s Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

g. 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~~ does not exceed 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~~ information needed 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 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.

✓ 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. The form should be completed using the Comptroller's online application located at 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.~~

2. 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 [of repayment](#) within 15 days of, but not later than June 30 of the fiscal year of borrowing.

3. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

4. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

h. 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

i. Financing Leases

Lease financing agreements 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; or (c) the life of the asset is materially equal to the maturity of the lease.

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

▪ A certified copy of the draft lease agreement.

▪ 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.

• When leasing multiple assets that have different useful lives: 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~~ does not exceed 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
~~When~~Is the lease is considered balloon indebtedness as defined in Tenn. Code Ann. § 9-21-133. ~~2~~
~~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.” Refer to Section 7.
~~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 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. The form should be completed using the Comptroller's online application located at 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.~~

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

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;
- Tenn. Code Ann. § 9-21-1003—To issue Revenue Refunding Bonds to refund Revenue debt; and
- 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 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 in number 10 below~~).
 - 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-number 18 below](#) for specific requirements).
4. Heightened Risk Debt – If the refunding bonds will be issued at a variable interest rate, contains an interest reset option, or contains 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 the variable rate or other options, as applicable, 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. Refer to the “Heightened Risk Debt Approval” requirements within this Section.
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. One of the following statements regarding 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.

Schedules

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).
 - 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 (a)~~ by more than 6 months after the date the last maturity is due; or ~~(b) by more than 2% of~~ the weighted average maturity ~~increases by more than 2%~~, provide a

detailed statement as to why the extension is in the public's interest and an assertion that the new maturity does not extend beyond the project life.

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 Districts, Utility Authorities, 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.

Minimum Requirements for a Requests for a Report on a Plan of Finance: reports should include the following:

1. Request letter signed by the General Manager/President of the Board.
2. ~~Complete~~ Plan of Finance – ~~New Money, including the following key elements:~~
 - Pro forma financial statements for the three fiscal years subsequent to the most recent audit, including debt coverage ratios.
 - ~~Copy of Preliminary Official Statement (for bonds) and d~~Draft resolution, when available.
 - Description of the capital project.
 - Maximum authorized amount, and anticipated size.
 - Amortization schedule including principal, interest, and total debt service;
 - Average coupon, arbitrage rate, all in cost, and true interest cost (TIC);
 - Sources and uses schedule.
 - Detailed costs of issuance schedule.
 - Heightened Risk Debt – If the proposed debt will be issued at a variable interest rate, contains an interest reset option, or contains a feature where the holder of the debt can “put” the bond or loan to the local government at a predetermined date, provide details of the variable rate and other options, as applicable. Refer to the “Heightened Risk Debt Approval” requirements within this Section.
 - Balloon Indebtedness – provide one of the following:

- Statement that the proposed repayment structure does not constitute Balloon Indebtedness as defined in Tenn. Code Ann. § 9-21-133, and provide the reason;
or
- Statement that a separate Plan of Balloon Indebtedness was submitted to the Comptroller's Office. See requirements for "Balloon Debt" in Section 7d.

3. Plan of Finance - Refunding

- ~~For refundings — please refer to~~ The requirements outlined for "Plans of Refunding" in Section 7a should be followed on page 33 for specific requirements.
- ~~The objective purpose of the refunding for utility districts and water and wastewater authorities (including regional) is governed by state law and must be for savings, removal or modification of a restrictive covenant change, elimination or mitigation of risk due to interest rate changes, or to prevent default. See Tenn. Code Ann. §§ 7-82-501(a), 9-21-1001(b), 68-221-611(a), and 68-221-1311(a). 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.~~
- 4. If the objective/purpose for the refunding is for savings, does the % of savings comply with the entity's debt management policy? Plan of Finance – New Money and Refunding
 - The plan of finance should include the elements identified above for both new money and refunding debt issues.

Federal Loans: Utility systems may receive loans from a federal agency, such as the USDA (Rural Development Loans), and the EPA (Drinking Water and Clean Water State Revolving Fund (SRF) Loans, and the Water Infrastructure Finance and Innovation Act (WIFIA) Loans). These federal loans are often approved and administered by a state agency. A report on a Plan of Finance is not required when:

- The debt will be purchased by a direct lending department of the federal government. For example, interim financing is obtained from a non-federal lending entity, such as a local bank, and later refinanced (purchased) with proceeds from a federal loan.
- The loan is with a lending department of the federal government.

However, a Plan of Finance is required when the federal lending department is only guaranteeing the debt. For example, the Rural Utilities Service (RUS) federal loan guarantee program administered by the USDA. This program supports rural development by providing loan guarantees to private lenders, enabling them to extend credit to qualified borrowers in rural areas. The RUS guarantees a portion of the loan, generally up to 80 or 90 percent, and for a term up to 35 years.

- ~~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 guidelines are available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Balloon Debt” tab. 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.

Minimum Requirements to Request Approval to Issue Balloon Indebtedness:

1. 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.

2. 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.

The Comptroller’s Office has 15 business days after receipt of a plan to review and either approve or disapprove the plan. Incomplete plans are not considered received and additional information may be requested to properly review the proposed plan. The Comptroller’s Office will evaluate each plan based on the plan’s particular circumstances and approve the plan only if a determination is made that the repayment structure is in the public’s interest.

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:

- Signed request letter from the Mayor, County Executive, City Manager, or Finance Director
- Proposed resolution authorizing the bonds or notes
- Proposed disclosure statement; if any
- Schedule showing the estimated annual principal and interest requirements
- Detailed statement showing the estimated cost of issuance
- Listing of projects to be financed
- Detailed description of non-ad valorem tax revenue pledge including a listing of individual revenues pledged
- Five-year history of the pledged revenues
- 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, [including an online submission process](#).

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 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. **Events of Default, Covenant Violations, and Credit Rating Downgrades**~~reporting~~

As approved by the Tennessee State Funding Board, public entities, including all state and local governmental entities, are required to report events of default, covenant violations, and credit rating downgrades to the Comptroller's Office (Tenn. Code Ann. § 9-21-134). Timely notification of the following occurrences enables the Comptroller's Office to be proactive in supporting public entities that may be at risk of financial distress.

Events of Default

Events of default include defaults (monetary), events of acceleration, termination events, modifications of terms, or other similar events under the terms of a debt obligation of a public entity. Events of default must be reported to the Comptroller's Office at LGF@cot.tn.gov within 10 business days using the notice form available at tncot.cc/debt-notice. Industrial development boards have 15 calendar days to report a default (see requirements at tncot.cc/idc).

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.

Covenant Violations

Covenants are contractual obligations associated with a debt obligation (bond contract, note form, financing lease, loan agreement, etc.) that are meant to protect the interests of the debt holder. Covenant violations must be reported to the Comptroller's Office at LGF@cot.tn.gov within 10 business days using the notice form at tncot.cc/debt-notice.

Credit Rating Downgrades

Credit rating downgrades are the reduction or elimination of a credit rating by any nationally recognized statistical rating organization as identified by the United States Securities and Exchange Commission. Credit rating downgrades must be reported to the Comptroller's Office at LGF@cot.tn.gov within 10 business days using the notice form at tncot.cc/debt-notice.

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 (DPM) that complies with the guidance from the State Funding Board found on our website.

The DPM shall be fitted to the local government's needs and reviewed and amended as needed. The DPM 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.

i. Heightened Risk Debt Approval

Pursuant to Tenn. Code Ann. § 9-21-409, prior to issuing any heightened risk debt, a local government must receive approval from the Division of Local Government Finance. Heightened risk debt includes any debt obligation that contains:

- a put option (a provision where the holder of the debt can force repayment with a limited notice);
- an interest rate reset provision; or
- a variable interest rate.

For the purposes of this statutory requirement, local government includes any incorporated county, metropolitan government, municipality (city or town), water, wastewater, or energy authority, or utility district.

Minimum Requirements to Request Approval:

A fillable and downloadable form for a request to issue heightened risk debt can be found on the Comptroller's website at tncot.cc/debt. Please contact the Comptroller's Office with any questions about the request or the online form.

When Approval Overlaps with Other Comptroller Approvals and Reports:

1. For debt that is approved by the Comptroller's Office, such as capital outlay notes, follow the requirements already outlined within this manual for the proposed debt, and also include a completed request form, available at: tncot.cc/debt, for heightened risk debt. These may be sent as one submission.
2. For debt that is reported on by the Comptroller's Office, for example: refundings and plans of finance, follow the minimum requirements outlined above and submit as a separate request.

Requests should be sent to the Division of Local Government Finance at LGF@cot.tn.gov for review and approval. Requests will be reviewed within 15 days; however, if the submission is incomplete, the 15-day review period will not begin until all information is received. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval. Pursuant to Tenn. Code Ann. § 9-21-409, the Comptroller will evaluate each request based on the local government's particular circumstances and approve the request only if a determination is made that the debt terms are in the public's interest.

j. Comptroller's Annual Budget Approval – Impact on Debt Issuance

See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

Annual Budget Approval – Prerequisite to Incurring Debt

State legislators have recognized the importance of having an approved budget by passing legislation specifying that if the annual budget is not approved by the Comptroller's Office, local governments (counties, municipalities, metropolitan governments, utility districts, municipal energy authorities, water and wastewater treatment authorities, and other local

governments subject to the Comptroller's budget oversight) may not issue debt or financing obligations until a subsequent budget is approved.

Emergency Financial Transacitons

The Comptroller's Office may waive the requirement of budget approval to allow a local government to enter into an emergency financial transaction. If the local government does not receive an approved budget for the fiscal year and requires a waiver to enter into an emergency financing transaction, local officials should contact their regional financial analyst within the Division of Local Government Finance for assistance. Requests for waivers must contain:

- A letter requesting approval for a waiver so that the local government may enter into an emergency financial transaction. The letter should:
 - Be from and signed by the local government's chief executive (mayor, etc.).
 - Include a description of the nature of the emergency financing need, including the capital project.
 - Describe the debt transaction including:
 - Not to exceed amount
 - Security
 - Maturity/term
 - What corrective actions the local government has done, or plans to do, to address the reason why the budget was not approved.
- A proposed amortization schedule.
- Any additional documentation that will demonstrate the emergency financing need.

The request will be reviewed within 10 days of receipt by the Division of Local Government Finance. If the submission is incomplete, the 10-day review period will not begin until all the information that is needed is received. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval. Approval may be conditioned upon some action by the local government. Consideration will be given when the financing is needed to prevent an emergency, to respond to an emergency, or when public health or essential public services are at risk.

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, for general governmental operating funds and for utility systems, that the Comptroller's Office calculates annually:

Financial Health Metrics	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Above 15%	15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Do we have the ability to pay short-term obligations?	Less than 25%	25% to 75%	Greater than 75%
Debt as a Percent of Assessed Value	How burdensome is our 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? (A concern exists when cash reserves are low)	Positive value	Decrease of 0% to 2%	Decrease greater than 2%

For Governmental Operating Funds (General Fund, General Purpose School Fund, and Other Funds with Recurring Payroll Expenditures)				
Financial Health Metric	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Do we have the ability to pay short-term obligations?	Less than 25%	25% to 75%	Greater than 75%
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exists when cash reserves are low.)	Positive	Decrease of 0% to 2%	Decrease greater than 2%
For Counties, Metros, and Municipalities with a Property Tax - General Governmental Debt as a Percent of Assessed Value*	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Municipalities without a Property Tax - General Governmental Debt as a Percent of Median Household Income	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%

For Utility Systems (Operated by a City/Town, County, Metro Govt, Utility District, Authority, or Joint Venture)				
Financial Health Metric	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Cash Expenses	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Assets as a Percent of Current Liabilities	Do we have the ability to pay short-term obligations?	Greater than 1.25x	1.0x to 1.25x	Less than 1.25x
Statutory Change in Net Position as a Percent of Operating Revenue for Systems under TBOUR Jurisdiction	Are my rates sufficient to cause a positive statutory change in net position?	Positive	N/A	Negative
Business Type Activity Debt Coverage Ratio**	Do we have revenues sufficient to cover debt service?	Greater than 1.20x	N/A	Less than 1.20x

* Debt as a Percent of Assessed Value is calculated as: total general governmental debt divided by total assessed value of property in the local government as reported by the Comptroller on the Tax Aggregate Report.

** Debt Coverage Ratio is calculated as annual operating revenues minus annual operating expenses excluding depreciation divided by annual debt service (principal and interest) payments.

c. 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
	Moody's	Standard & Poor's	
Investment Grade	Aaa	AAA	The highest rating – considered the highest quality, with minimal risk of default.
	Aa	AA	Considered high quality with very low risk.
	A	A	Considered upper-medium grade with low risk of default.
	Baa	BBB	Considered medium-grade; may have speculative characteristics.
Non-Investment Grade – Speculative or “Junk” Bonds	Ba	BB	Considered to have some speculative elements and substantial risk of default.
	B	B	Considered speculative with high risk of default.
	Caa	CCC	Considered poor quality with very high risk of default.
	Ca/C	CC/C	Considered highly speculative, and likely in default or close to default; some chance of recovering principal and interest.
	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.

- 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):

Financial Institution/Lender	Interest Rate Quoted
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Issuance Costs

_____ There are no issuance costs associated with these notes.

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

Signed: _____

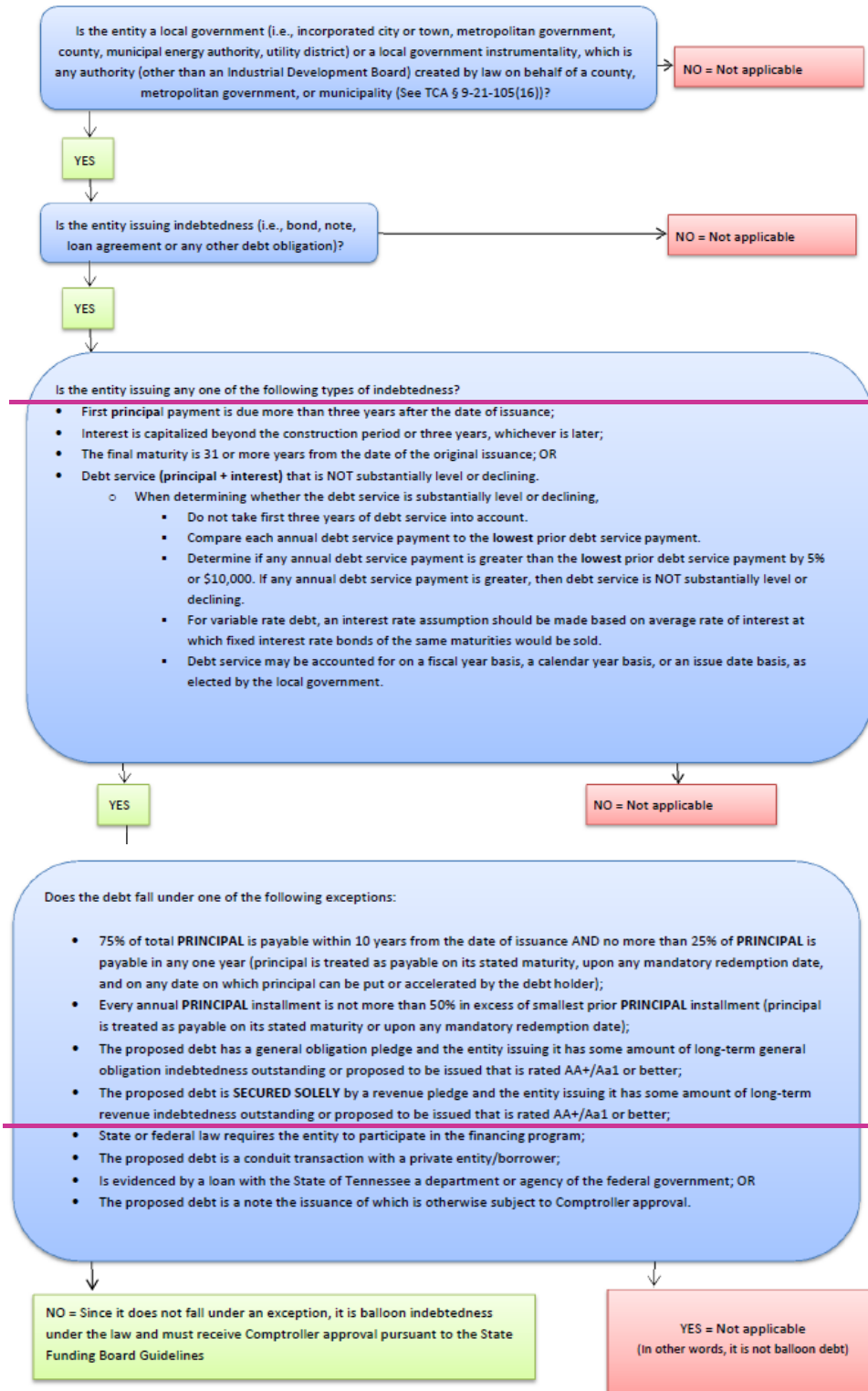
Name and Title (printed): _____

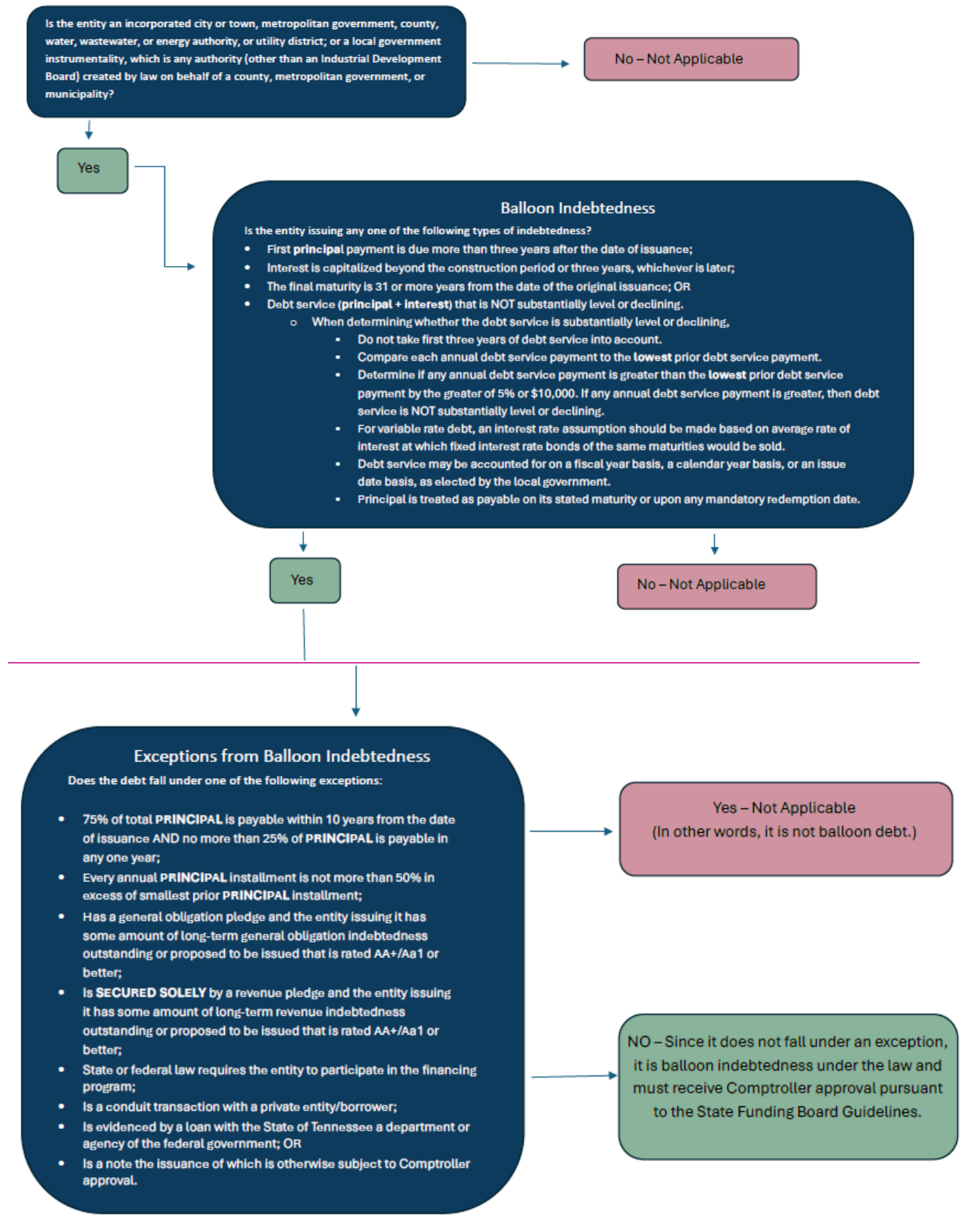
Attachment 1
Schedule of Informal Bid Issuance Costs

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

Tenn. Code Ann. § 9-21-133







JASON E. MUMPOWER
Comptroller

Date: June 23, 2025
To: Members of the State Funding Board
From: Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Ms. Sheila Reed, Director, Division of Local Government Finance
Subject: Update to Tennessee State Funding Board Guidelines

The Comptroller's Division of Local Government Finance (LGF) presents the following changes, effective upon passage, to the following guidelines:

1. *Tennessee State Funding Board Guidelines – Debt Reporting by Public Entities*
2. *Tennessee State Funding Board Guidelines – Debt Reporting by Industrial Development Boards*
3. *Tennessee State Funding Board Guidelines – Adopting a Debt Management Policy – Requirements, Objectives, and Best Practices*

The proposed updates reflect policy changes resulting from legislation that passed during the 114th General Assembly (2025), as summarized below:

Public Acts 2025, Ch. 17

This new legislation requires public entities to report defaults, covenant violations, and credit rating reductions for debt obligations. The SFB Guidelines on debt reporting by public entities and debt reporting by industrial development boards are being updated for this legislation.

Public Acts 2025, Ch. 218

This new legislation requires local governments to receive approval from the Comptroller of the Treasury prior to issuing debt with risks associated with variable interest rates, put options, and interest rate reset options. The SFB Guidelines for debt management policies are being updated for this legislation.



JASON E. MUMPOWER
Comptroller

Tennessee State Funding Board Guidelines

Debt Reporting by Public Entities

I. Background

The purpose of Tenn. Code Ann. § 9-21-134(d) is to promote transparency by requiring Public Entities to disclose information regarding financial obligations. Terms used in these Guidelines shall have the meaning as defined in the Glossary (see Appendix A).

II. Reporting Requirements

A. Report on Debt Obligation

Public Entities must submit the information outlined in Appendix B to its governing body, with a copy to the Comptroller's Office within forty-five (45) calendar days of the issuance, reissuance, incurrence, execution, or assumption of a finance transaction. See Appendix B for the content of the submission and Appendix C for exemptions and clarifications.

B. Continuing Disclosure

Public Entities with publicly traded debt must comply with the applicable Continuing Disclosure Agreement ("CDA"). This includes CDAs executed after February 27, 2019, that must include requirements for disclosure of financial obligations and events of default on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB) in accordance with SEC Rule 15c2-12.

C. Notices of Events of Default, Covenant Violations, and Credit Rating Downgrades

Public Entities must notify the Comptroller's Office of events of default, covenant violations, and credit rating downgrades within ten (10) business days of occurrence. The notification must include copies of the underlying documents such as:

- event reporting notice of default
- notice of covenant violation
- credit rating downgrade notification from a rating agency or agencies
- loan agreement or similar documents for a debt obligation

The reporting content, format, and method of delivery will be as prescribed by the Comptroller's Office.

D. Reporting by Industrial Development Boards and Public Building Authorities

Industrial development boards (“IDBs”) incorporated pursuant to Tenn. Code Ann., Title 7, Chapter 53, that comply with the Board’s Guidelines for Debt Reporting by IDBs (the “IDB Guidelines”), will be deemed to have complied with the requirement for notices of default in subsection C above. IDBs must comply with the remaining Guidelines in subsection C for reporting covenant violations and credit rating downgrades and with the requirements in subsections A and B.

In the case of debt obligations issued or incurred by a public building authority (“PBA”) incorporated pursuant to Tenn. Code Ann., Title 12, Chapter 10 to provide capital financing for a Public Entity other than the PBA, the portion of these Guidelines related to the reporting of events of default, covenant violations, and credit rating downgrades shall apply to the Public Entity and not the PBA.

Approved by the State Funding Board at its meeting on June 27, 2019, and amended on June 23, 2025.

Appendix A

Glossary

Covenant Violation – means noncompliance with one or more covenants as defined in a lending document of a Debt Obligation.

Credit Rating Downgrade – means the reduction or elimination of a credit rating by any nationally recognized statistical rating organization as identified by the United States Securities and Exchange Commission.

Debt Obligation – means a Public Entity’s debt, debt-like and debt related obligations, and financing leases but does not include a Public Entity’s ordinary financial and operating liabilities incurred in the normal course of the Public Entity’s business.

Event of Default – as defined in Tenn. Code Ann. § 9-21-134(a), means default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a debt obligation of a Public Entity, any of which reflect financial difficulties of the Public Entity.

Finance Transaction – as defined in Tenn. Code Ann. § 9-21-134(a), means a transaction in which a public entity issues, incurs, executes, or assumes a Financial Obligation.

Financial Obligation – refers to definition for “Debt Obligation”.

Name of Debt Obligation – means the name of the Debt Obligation as reported on the official statement or offering memorandum, loan document, or as reported in the financial statements.

Public Entity – as defined in Tenn. Code Ann. § 9-21-134(a), means the State, a state agency, a local government, a local government instrumentality, or any other authority, board, district, instrumentality, or entity created by the State, a state agency, local government, a local government instrumentality, or combination, thereof.

Type of Debt Obligation – means bond, note, financing lease, loan agreement, , guarantee or other description of Debt Obligation.

Appendix B

Report on Debt Obligation

Minimum Information

Public Entities must submit the below required information to its governing body, with a copy to the Comptroller's Office within forty-five (45) calendar days of the issuance, reissuance, incurrence, execution, or assumption of a debt obligation.

The online reporting form is available at: tncot.cc/debt-report.

I. Required Information for the Form, as applicable

1. Entity Name
2. Entity Address
3. Debt Issue Name and Year
4. Debt Issue Face (Par) Amount and Original Issue Discount or Premium Amount
5. Tax Status (Tax-Exempt or Taxable)
6. Interest Rate
7. Type of Debt Issue
8. Ratings
9. Purpose of Debt Issue
10. Security for the Debt Issue (General Obligation, Revenue, etc.)
11. Type of Sale (Competitive or Negotiated)
12. Dated Date and Issue/Closing Date
13. Amortization Schedule - Maturity Dates, Amounts, and Interest Rates
14. Name and Type of Professionals Involved with Debt Issuance and Costs of Issuance
15. Information about Posting to EMMA
16. Name of Chief Executive of Finance Officer of the Public Entity
17. Name of Preparer (Submitter)
18. Date of the Public Meeting at which the form is to be presented

Appendix C

Report on Debt Obligation

Exemptions and Clarifications

I. Exemptions

The State Funding Board has exempted the following finance transactions from the disclosure and filing requirement of Tenn. Code Ann. § 9-21-134:

1. Borrowings by the University of Tennessee and by the State Board of Regents from the Tennessee State School Bond Authority; note, the TSSBA would continue be subject to the requirements [Section 9-21-134(b)(2)(B))]
2. Draws or issuances under a program where maximum principal (non-revolving) and essential terms are established in the beginning and the governing body (1) elects to file an initial disclosure disclosing as if full authorized amount has been drawn or issued and (2) establishes the form and frequency (not less than annually) to be updated on the program (such updates are not required to be filed with the Division of Local Government Finance).

II. Clarifications

The State Funding Board has clarified that:

1. When a form has been filed for a commercial paper program, replacement commercial paper issued at the maturity of a piece of commercial paper (a “roll”) is not deemed a “new issue” triggering filing of another form; and
2. Conduit issuers must file the form and disclose even if the cost, fee, or debt service is paid or assumed by a non-governmental borrower. Approved by the State Funding Board at its meeting on December 17, 2013



JASON E. MUMPOWER
Comptroller

Tennessee State Funding Board Guidelines Debt Reporting by Industrial Development Boards

I. Background

Title 7, Chapter 53 of the Tenn. Code Ann. authorizes the formation of industrial development corporations, also known as industrial development boards (IDBs), for the purpose of maintaining and increasing employment opportunities, agricultural commodities, and available housing, as well as addressing environmental pollution.

Tenn. Code Ann. § 7-53-304 creates transparency related to debt issued by IDBs by requiring an IDB to maintain an aggregate listing of its current debt, including both the direct debt of the IDB and any conduit debt, in accordance with guidelines approved by the Tennessee State Funding Board (SFB) and to report to the SFB any defaults.

Pursuant to Tenn. Code Ann. § 9-21-134, IDBs are also required to report covenant violations and credit rating downgrades to the Comptroller of the Treasury. Those reporting requirements are available at: tncot.cc/debt. - *SFB Guidelines – Debt Reporting by Public Entities*

II. Reporting

A. Annual Report on Outstanding Debt

IDBs have ninety (90) calendar days from the close of the IDB's fiscal year to submit the Annual Report on Outstanding Debt using the reporting format prescribed in Appendix B.

B. Notice of Default

The IDB shall file a notice within fifteen (15) calendar days of the default (see Appendix A for a definition) using the reporting format in Appendix C.

Approved by the State Funding Board at its meeting on January 21, 2020, and amended at the meetings held on June 27, 2023, and June 23, 2025.

Appendix A

Glossary

Authorized Representative – shall mean the individual the IDB has authorized to compile and submit information pursuant to these Guidelines.

Debt – shall mean any bond, note, loan agreement, or other evidence of a debt obligation, including leases that meet the statutory definition of a financing lease pursuant to Tenn. Code Ann. § 9-24-102. 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** (also referred to as direct debt of the IDB) shall mean debt in which the IDB incurs a definite and absolute obligation to the payment of the principal of and interest on the debt obligation.
2. **Conduit Debt** shall mean debt issued by the IDB to provide capital financing for a public, private, or nonprofit entity other than the IDB.

Default – shall mean:

1. A failure to pay principal of or interest on a debt when it is due if defined as a default in the indenture; or
2. Insufficiency of funds to make scheduled debt payments, but not defined as a default in the indenture; or
3. Receipt by the IDB of a notice of an event of default from a conduit borrower.

Default does not include situations where such failure has been waived by the holder(s) of the debt.

Industrial Development Corporation/Board or IDB – shall mean any corporation organized pursuant to Tenn. Code Ann, Title 7, Chapter 53.

Report on Debt Obligation – shall mean the statutory reporting as prescribed in Tenn. Code Ann. § 9-21-134(c) and as outlined in the *SFB Guidelines – Debt Reporting by Public Entities*.

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 B.

Appendix B

Industrial Development Boards

Report on Outstanding Debt

Format

The Industrial Development Board (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.

An online reporting form that meets minimum reporting requirements is available at: tncot.cc/debt.

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, email address, and phone number.
4. As applicable, identify the IDB Counsel and Financial Advisor, including their name, title, company, email address, 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 or a Conduit Debt Obligation. Do not include Non-debt (PILOT/Leasehold.)
5. If the Report on Debt Obligation 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.

Appendix C

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 Obligation within fifteen (15) calendar 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 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.

An online reporting form that meets minimum reporting requirements is available at: tncot.cc/debt.

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

- A. **Name of IDB:** Legal name as listed in its certificate of incorporation.
- B. **Contact Information:** Include 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 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:** Include sources of revenue pledged to repay the debt and, if applicable, the lien position of revenues that are associated with other outstanding debt.
- E. **Type of Default:** Refer to defined terms in Appendix A.
- 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 the date on which the IDB received notice of default from a conduit borrower.
- 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 when applicable, plans to cure it.
- 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) calendar days of the default.



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Comptroller

Tennessee State Funding Board Guidelines

Adopting a Debt Management Policy – Requirements, Objectives, and Best Practices

I. Debt Management Policy

The State Funding Board is authorized to develop model finance policies for use by public entities pursuant to Tenn. Code Ann. § 9-21-134. The following guidelines have been developed for public entities in Tennessee by requiring the adoption of a policy that supports responsible debt management. These guidelines should be followed when preparing, adopting, reviewing, and amending debt management policies.

Adopting financial policies can help entities:

1. Make better financial decisions;
2. Provide clear objectives for staff;
3. Demonstrate strong financial management practices to credit rating agencies; and
4. Distinguish policy decisions from transaction decisions.

Financial policies do not prevent unforeseen or negative events from occurring, nor do they prevent poor financial decisions. However, public entities that have sound financial policy guidelines in place can address situations proactively before they occur and minimize risks.

All public entities that incur or issue debt must have a debt management policy, adopted by its governing board, that contains the minimum requirements as described below. The policy needs to address the types of debt the entity utilizes or plans to utilize for its financing.

Prior to adopting a policy, members of the public entity's governing board should have an understanding of public finance so that they participate in policy discussions and gain more value from external professional assistance; however, even if professional assistance is utilized, the entity is solely responsible for the development, adoption, and implementation of the policy.

There are four guiding principles that are foundational to all debt management policies:

1. Understand the transaction;
2. Explain to citizens what is being considered;
3. Avoid conflicts of interest; and
4. Disclose costs and risks.

These principles have been incorporated into the following requirements.

Debt Management Policy - Minimum Requirements

Debt management policies, including any revisions, must be filed with the Comptroller of the Treasury at LGF@cot.tn.gov.

The policy should address the following:

1. The information that is to be provided to the public, governing body, and all stakeholders regarding:
 - a. the decision to issue debt, how debt will be structured and sold, and all costs involved in issuing debt (See glossary for a definition of costs.);
 - b. the selection process for professionals who provide services related to debt issuance;
 - c. conflicts of interest;
 - d. all ongoing debt and related costs (including interest and recurring administrative costs); and
 - e. federal and regulatory compliance issues.
2. A process for legal review of proposed debt to be issued to ensure the public entity is both authorized to issue the debt and in compliance with applicable state, local, and/or federal laws.
3. The overall financial management strategy and the purpose for issuing debt.
4. Transparency, the hiring of financial professionals, and conflicts of interest. (See Appendix A for minimum language to be included.
5. Terms of the debt issue that are required to be disclosed, such as maturity, interest rate, and scheduled debt service. In no event may payment of either principal or interest exceed the useful life of the asset financed.
6. Whether deferral of payment of principal (or backloading) is allowed. If permitted, the policy must require specific justification for the repayment structure. If local governments issue debt with a balloon structure, the government must comply with the requirements of Tenn. Code

Ann. § 9-21-133, which requires approval by the Tennessee Comptroller's Office prior to the debt being issued.

7. Maximum levels or amounts of debt that the public entity may issue per security type. This may be based on locally adopted economic indicators, such as debt per capita, a comparison of debt to property values, or debt service as a percentage of revenues or expenditures. The policy should require that this limitation be evaluated before additional debt is issued and reviewed periodically with the governing body.
8. How the public entity addresses risks associated with debt instruments that include:
 - a. a put (or tender) options (a provision where the holder of the debt can force repayment with a limited notice period);
 - b. an interest rate reset provisions; or
 - c. a variable interest rate.

This may include setting a maximum amount, level, or percentage of debt the public entity is willing to have outstanding at any time that includes any of the above risks and maintaining reserves sufficient to safeguard against risks. Debt issued by local governments with a variable interest rate, rate reset provision or put option must be approved by the Comptroller's Office prior to being issued as required by Tenn. Code Ann. § 9-21-409.

The State, as well as a few larger local governments, utilize commercial paper programs and revolving lines of credit to finance capital projects to be refinanced at a later date with long-term debt. Commercial paper is issued at variable rates, with terms ranging from 1 to 270 days, and at maturity commercial paper may be reissued at a different interest rate and with different terms or repaid. If public entities plan to issue commercial paper the policy should describe the program (including the type of commercial paper authorized to be issued, regular and/or extendable), outline the risks involved, and how the public entity manages the risks. The percentage of debt allowed to be outstanding with a variable interest rate generally excludes commercial paper due to its inherent short-term nature.

9. A plan for regularly reviewing and amending the policy. At a minimum, the policy must be reviewed each time there are legislative changes that impact the policy and when there is a change in the administration or governing body.

A list of resources and a glossary are provided to assist with developing debt management policies. (See Appendix B and Appendix C.)

Effective November 1, 2009, and as amended June 23, 2025.

Appendix A

Minimum Language

1. Transparency

- The Entity shall comply with legal requirements for notice and for public meetings related to debt issuance. In the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens/members, governing body, and other stakeholders in a timely manner. *(The method for disclosure of costs and other information, including documentation of compliance with the policy, shall be developed and outlined in the policy.)*

2. Professionals

- The Entity shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the Entity and the lender or conduit issuer, if any. This includes “soft” costs or compensations in lieu of direct payments.
- Counsel¹: The Entity shall enter into an engagement letter agreement with each lawyer or law firm representing the Entity in a debt transaction. *(No engagement letter is required for any lawyer who is an employee of the Entity or lawyer or law firm which is under a general appointment or contract to serve as counsel to the Entity. The Entity does not need an engagement letter with counsel not representing the Entity, such as underwriters’ counsel.)*
- Financial Advisor²: If the Entity chooses to hire financial advisors, the Entity shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.
- Underwriter: If there is an underwriter, the Entity shall require the Underwriter to clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Entity with respect to that issue. The Underwriter must clarify its primary role as a purchaser of securities

¹ The requirement for an engagement letter does not apply to any lawyer who is an employee of the Entity or any lawyer or law firm under a general appointment as counsel to the Entity and not serving as bond counsel for the transaction.

If bond counsel for a debt transaction does not represent the Entity in that transaction, the Entity will enter into a fee payment letter agreement with such lawyer or law firm specifying:

- a. the party represented in the debt transaction; and
- b. the Entity’s obligation with respect to the payment of such lawyer or law firm’s fees and expenses.

²For new issues of debt which constitutes a “security” for which the Time of Formal Award (as defined in Rule G-34(a)(ii)(C)(1)(a)) occurs after November 27, 2011, the Municipal Securities Rulemaking Board has prohibited broker, dealer or municipal securities dealer serving as a financial advisor to an issuer for a particular issue from switching roles and underwriting the same issue. Policies must be adjusted to comply with amended Rule G-23 as it applies to securities, including exceptions to the prohibition.

in an arm's-length commercial transaction and that it has financial and other interests that differ from those of the Entity. 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 governing body (*or its designated official*) in advance of the pricing of the debt.

3. Conflicts

- Professionals involved in a debt transaction hired or compensated by the Entity shall be required to disclose to the Entity 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. This disclosure shall include that information reasonably sufficient to allow the Entity to appreciate the significance of the relationships.

Professionals who become involved in the 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. No disclosure is required that would violate any rule or regulation of professional conduct.

Appendix B

Resources

1. **Government Finance Officers Association (GFOA)** (www.gfoa.org)
 - [Budgeting Best Practices](#)
 - [Debt Management Advisories](#)
 - [Debt Management Best Practices](#)
2. **International City/County Management Association** (<https://icma.org/>)
 - Management Policies in Local Government Finance, 6th Edition
(<https://bookstore.icma.org/management-policies-in-local-government-finance-6th-edition-p43.aspx>)
3. **Municipal Technical Advisory Service** (<https://www.mtas.tennessee.edu>)
4. **County Technical Assistance Service** (<https://www.ctas.tennessee.edu>)
5. **Rating Agencies:**
 - [Fitch Ratings](#)
 - [Moody's](#)
 - [S&P Global Ratings](#)
6. **Municipal Securities Rulemaking Board** (www.msrb.org)
 - [Electronic Municipal Market Access](#) (EMMA)
7. **Securities Industry and Financial Markets Association** (www.sifma.org)
8. **California Debt and Investment Advisory Commission**
(www.treasurer.ca.gov/cdiac/)

Appendix C

Glossary

Conflicts of Interest occur in situations where parties in a transaction have multiple interests or relationships that could possibly corrupt the motivation to act. The presence of a conflict of interest indicates the potential for divided loyalty and does not automatically indicate wrongdoing.

Costs are recurring and nonrecurring fees and expenses of professionals and service providers related to the issuance of debt, payable at the time the debt is incurred and/or during the life of the debt.

Debt is indebtedness lawfully issued, reissued, executed or assumed by a public entity. Debt is created when a public entity enters into an agreement to pay another entity in exchange for receiving an upfront payment or loan or for acquiring an asset. Common instruments or evidence of debt are:

Bonds are debt instruments issued for a period of one year or longer, usually for long-term financing.

Notes are debt instruments issued for a short period of time, often for interim financing. Examples are capital outlay notes, tax and revenue anticipation notes, bond anticipation notes, and grant anticipation notes.

Financing Leases are financial agreements where the lessor gives the lessee the right to use an asset in exchange for payment of funds and the agreement includes specific criteria that results in a debt obligation to the lessor.

Loans are financial agreements entered into by a public entity with a financial institution such as a local bank or a state or federal loan program. Examples may include but are not limited to State Revolving Fund Loan Programs or USDA Rural Development Loans.

Debt Service is a series of payments including interest (the true cost of borrowing paid to the obligor/investor) and principal (the amount of money borrowed or credit provided) required to be prepaid over a period of time. The rate of interest can be variable or fixed.

Federal Compliance is adherence to the federal rules, such as laws issued by the IRS related to the issuance of tax-exempt debt, or rules issued by the MSRB related to transparency and fair practices within the municipal securities market.

Financial Transaction is an agreement to exchange goods, services, or assets for payment.

Local Government is:

Tenn. Code Ann. § 9-22-133 – For the purposes of approval of balloon indebtedness, any incorporated city or town, metropolitan government, county, or utility district. It also includes any instrumentality of the aforementioned local governments.

Tenn. Code Ann. § 9-21-409 – For the purposes of approval of debt with a variable rate, put option, and/or interest rate reset, any government issuing debt pursuant to the authority of Tenn. Code Ann., Title 9, Chapter 21.

Professionals are individuals or firms advising or providing professional services to a public entity with respect to a financial transaction. Examples of professionals are:

Advisor – an individual or firm with a deep knowledge in a specific area, engaged in the business of advising others. It can include a Financial, Swap, or Program Administrator.

Counsel – a legal advisor or attorney, whether an individual or a firm, representing a client. It can include Bond, Disclosure, Issuer, Swap, Tax, or Underwriters Counsel.

Counterparty – the entity on the opposite side of the transaction; usually it refers to the other party in an interest rate (or swap) agreement.

Lender – an individual or firm that provides funds to a borrower with the expectation that the funds will be repaid, usually with interest.

Paying Agent – an individual or firm that transfers the periodic interest and principal payments from the public entity to the investors.

Registrar – the individual or firm responsible for maintaining a record or list of owners or investors of the debt (sometimes referred to as holders of the debt).

Remarketing Agent – the firm responsible for reselling debt securities “tendered” by the current holders, to new investors. The remarketing agent is also usually responsible for resetting the interest rate for variable rate debt.

Underwriter – the firm that buys new debt for reselling to the public for a profit. The underwriter may acquire the debt either through negotiation or competitive bid.

Verification Agent – a certified public accountant or other independent third party that determines that the cash flow from investments purchased with proceeds of a refunding debt issue, along with other money, will be sufficient to pay the refunded bonds.

Public Entity is a governmental organization or unit that has a legal existence and is authorized to borrow money or enter into debt. It includes the State, state agencies, local governments, local government instrumentalities, and any other authority, board, district, instrumentality, or entity created by the State, a state agency, a local government, a local government instrumentality, or any combination of the above. It does not include legal entities without debt authority, such as a county school board; however, a special school district with debt authority is included.

Governing Body – the group of individuals with the authority to make decisions for a public entity, often referred to as the “legislative body.” Governing bodies are subject to the Tennessee Open Meetings Law (requiring public notice and recording of minutes). Members are the individuals serving on the governing body.

Conduit Issuer – a governmental entity or agency that issues debt for the purpose of lending the proceeds to another entity rather than financing a project for itself. Examples of conduit issuers are health and education boards, economic development boards, and public building authorities.

Risk refers to the uncertainty (downside) involved in a debt transaction, including investment, business, credit, market, liquidity, operations, tax, and basis risks.

Security is a term that is used both to describe a debt instrument that can be purchased, sold, or transferred to another party, or to describe property or an asset that is pledged as collateral to secure a debt.

State Loan Programs refer to programs offered by the state or state agencies. For example, the State Revolving Loan Program offered by the Tennessee Local Development Authority and the Energy Efficient Schools Initiative program offered by the State of Tennessee..

State Funding Board is the state entity whose members are the Governor, the Commissioner of Finance and Administration, the Comptroller, the State Treasurer, and the Secretary of State. The State Funding Board is created by Tenn. Code Ann. § 9-9-101.



JASON E. MUMPOWER
Comptroller

Date: June 23, 2025
To: Members of the State Funding Board
From: Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Ms. Sheila Reed, Director, Division of Local Government Finance
Subject: Removal of Tennessee State Funding Board Guidelines

The Comptroller's Division of Local Government Finance (LGF) recommends removal of the following guidelines effective July 1, 2025:

*Tennessee State Funding Board Guidelines – Blanket Exemption Under
the Anti-Kicking the Can Act (PC 766, Acts of 2014)*

The proposed removal is requested to reflect changes resulting from legislation that passed during the 114th General Assembly (2025), as summarized below:

Public Acts 2025, Ch. 218

Pursuant to the guidelines identified above (the "Guidelines"), local governments are exempt from the balloon indebtedness statute (Tenn. Code Ann. § 9-21-133) under specific circumstances. Public Acts 2025, Chapter 218, amended statute to address those circumstances as follows:

1. The Guidelines currently exempt local governments from the state's balloon indebtedness law for state and federal loan programs. Public Acts 2025, Ch. 218, adds this exemption to state law.
2. The Guidelines currently exempt local governments that enter into a debt obligation with a put option when certain conditions are met. Public Acts 2025, Ch. 218, removes put options from the definition of balloon indebtedness, and requires approval from the Comptroller of the Treasury for debt issued by local governments that have a put option.



JASON E. MUMPOWER
Comptroller

MEMO

To: State Funding Board
From: Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Sheila Reed, Director, Division of Local Government Finance
Date: June 23, 2025
Subject: Report on Emergency Financial Aid to Local Governments

The Federal Emergency Management Agency (FEMA) issued Major Disaster Declarations for Tennessee as follows:

- April 2, 2025 – EM-3625-TN - Due to Severe Storms, Straight-line Winds, Tornadoes, and Flooding
- October 2, 2024 – EM-4832-DR-TN - Due to flooding associated with tropical storm Helene

Pursuant to Tenn. Code Ann. § 9-13-201 et. seq (the “Act”), local governments must request approval from the Comptroller’s Office prior to issuing notes in the case of economic distress due to a natural disaster certified by the Federal Emergency Management Agency (FEMA). The Act requires the Comptroller of the Treasury to report to the State Funding Board any approval of note issuance pursuant to Tenn. Code Ann. § 9-13-206.

We have approved the following notes issued in connection with the FEMA declarations described above and as authorized by the Act.

Entity	Description	Date Approved	Amount Approved	Date Issued	Amount Issued	Maturity	Date Reported to SFB
McNairy County	Tax Anticipation Note (Interfund Loan for Highway Fund)	4/17/2025	500,000	4/25/2025	500,000	6/30/2027	6/23/2025
Town of Erwin	Tax Anticipation Note	5/30/2025	3,000,000		-	6/30/2027	6/23/2025

We anticipate additional approvals and will report those at future meetings.

For copies of the approved letters please see our [website](#).

Tennessee State Funding Board



Debt Management Policy

Prepared by
Division of State Government Finance

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Debt Management Policy

Purpose

A debt management policy is established to provide written guidance for a government regarding: the amount and type of debt that may be issued, the debt issuance process, management of the debt portfolio, the investment of bond proceeds, and compliance with regulatory authorities. 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) assists the Board in its decisions concerning debt issuance; and (3) provides justification for the issuance and structure of the debt. The State’s compliance with its debt management policy indicates to the rating agencies and capital markets that the State is well-managed with the ability to meet its obligations in a timely manner.

Annual costs related to debt 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 that is secured by the State’s pledge of 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 a bond authorization enacted by the General Assembly (the “Bond Acts”). 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 and performs certain duties and functions for and at the direction of the Board. SGF is responsible for managing the debt of the State, including the issuance of all bonds and notes and the repayment of such debt. The Director of SGF serves as the Assistant Secretary to the Board.

Goals and Objectives

The Board has established 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, the 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. Policy Goals

- To document responsibility for the oversight and management of debt-related transactions;
- To define the types of debt approved for use within the Bond Acts;
- To define and establish the criteria for the issuance of debt;
- To define the appropriate uses of debt;
- To define and establish the criteria for the refunding of debt or the use of alternative debt structures; and
- To establish certain parameters to minimize the cost of issuing and servicing debt.

B. Policy Objectives

- To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;
- To identify legal, financial, and administrative limitations on the issuance of debt;
- To ensure the appropriate legal use of the Board's debt issuance authority;
- To ensure the State maintains appropriate resources and funding capacity for present and future capital needs;
- To protect and enhance the State's credit rating;
- To evaluate and consider all possible debt issuance options;
- To create and maintain transparency throughout the debt issuance and management process;
- 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, 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 Tenn. Code Ann. § 9-9 and various Bond Acts pursuant to an authorizing resolution adopted by the Board (the "Resolution")].
- 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 their respective instrumentalities.
- Debt may be used to finance capital projects authorized by the General Assembly of the State of Tennessee ("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 mechanism to provide the State with budget authority to execute contracts to fund 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.
- In compliance with Article II, Section 24 of the Tennessee Constitution debt may only be used to fund operating expenditures when such debt is repaid in the fiscal year issued; however, it is not the State's practice to issue debt to fund operating expenditures.
- Prior to the issuance of bonds, bond anticipation notes may be issued for project costs as authorized by the Bond Acts and a Resolution.
- Bonds may be issued to refund outstanding debt.

B. Debt Service Coverage Test

- In accordance with Tenn. Code Ann. §9-9-105(c), no general obligation bonds shall be issued after July 1, 2013, unless the debt service coverage test is satisfied. The coverage test is met if the amount necessary to pay the maximum annual debt service payable in the current or any future fiscal year is not greater than ten percent (10%) of the amount of total state tax revenues allocated to the general fund, to the debt service fund, and to the highway fund for the immediately preceding fiscal year (“Total State Tax Revenues”).
- The Board shall cause a debt capacity study to be conducted if the maximum annual debt service is equal to or greater than six percent (6%) of total state tax revenues. The study is required to be conducted on an annual basis until the maximum annual debt service no longer exceeds six percent (6%) of the Total State Tax Revenues.

C. Federal Tax Status

- **Tax-Exempt Debt** – The Board will use its best efforts to maximize the amount of debt sold as tax-exempt based on the following 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 constraints on investment of debt proceeds.
- **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

- The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized.
- Debt may only be issued in accordance with the Bond Acts for which the General Assembly has appropriated sufficient funds for 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 term that is longer than the useful life of the capital project that it is funding.

E. Security

State general obligation bonds and notes constitute direct general obligations of the State. The State has pledged its full faith and credit with a charge and lien upon all fees, taxes and other revenues and funds allocated to the State’s general fund, debt service fund, and highway fund and, if necessary, the first fees, taxes, revenues and funds received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes.

For bonds that were issued on or before July 1, 2013, the charge and lien on fees, taxes and other revenues in favor of the bonds is subject to the specific pledge of special revenues (pursuant to Tenn. Code Ann. § 9-9-104) in favor of State general obligation bonds issued prior to July 1, 2013.

All general obligation indebtedness of the State is secured on parity with all other general obligation indebtedness of the State, except that the special revenues secure only general obligation bonds outstanding on July 1, 2013.

Types of Debt

A. Long-Term Debt/Bonds

Bonds may be structured as:

- **Fixed Interest Rate Bonds** – Bonds that have an interest rate that remains constant throughout the life of the bond, i.e., serial bonds and term bonds.
- **Variable Interest Rate Bonds** – Bonds that bear interest at a variable or floating rate, adjusted at specified intervals (daily, weekly, or monthly) according to a specific index.
- **Capital Appreciation Bonds** – Bonds that are structured where interest on principal accrues and compounds until maturity. At maturity the full amount of the principal and all interest accrued is repaid.

B. Short-Term Debt

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

- To fund projects with an average useful life of ten years or less; and
- To fund projects during the construction phase of the project.

Short-term debt is issued during the project's construction period and is subsequently repaid with proceeds from the sale of long-term debt or State funds. Short-term debt may include:

- **Bond Anticipation Notes (BANs)** – BANs are short-term interest-bearing securities issued to finance capital project expenditures during construction in anticipation of permanent financing through the issuance of long-term debt.
- **Commercial Paper (CP)** – CP is a BAN that may be issued with a maturity term of up to 270 days; and at maturity may be reissued to a future maturity date. It can be issued incrementally as funds are needed.
- **Fixed Rate Notes** – Notes issued for a period of five years or less with an interest rate that is fixed.
- **Variable Rate Notes** – Notes issued for a period of five years or less that bear interest at a variable or floating rate, adjusted at specified intervals (daily, weekly, or monthly) according to a specific index.
- **Revolving Credit Facility (RCF)** – A form of credit issued by a financial institution that provides the ability to draw on and repay during the term of the facility. The incremental drawdowns may bear interest until repaid.
- **Tax and Revenue Anticipation Notes (TRANS)** - Notes secured by a pledge of tax and other general fund revenues of the State. TRANS, if issued, constitute direct obligations of the State backed by its full faith and credit. All TRANS are repaid by the end of the fiscal year in which they were issued.

Debt Structure

The Board will 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 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 debt should be limited to no later than twenty-one (21) years after the date of issuance, unless otherwise permitted by the Bond Act and Resolution.

B. Debt Service Structure

New money debt will be issued with equal amounts of principal payments to be made in each year (level principal) over a twenty-year period unless otherwise specified in the Bond Act and Resolution. The Board will avoid use of bullet or balloon maturities; this does not include term bonds with mandatory sinking fund requirements or capital appreciation bonds.

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 Board's Financial Advisor (the "Financial Advisor") with respect to the value of the call option.

D. Tender Offer/Option Bonds

The State may issue tender option bonds to retire all or a portion of certain outstanding bonds by making an offer to repurchase the bonds from its bondholders at a specified price during a set period of time. Note that from a bond holder's perspective, the only material difference between a called and tendered bond is that with the tender offer, the bond holder must elect to accept the repurchase offer. If the tender offer is not accepted, the bond's terms (including scheduled maturity date) remain unchanged.

E. 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 Acts for funding discounts.

F. Redemption Provisions

The Board may redeem bonds in accordance with its redemption provisions in its Resolution.

- **Optional Redemption** - Bonds may be redeemed at the option of the State prior to their respective stated maturities.
- **Mandatory Redemption** - The State may issue bonds that are subject to mandatory redemption with a call provision that would require the State to redeem the bonds prior to their stated maturity date.
- **Sinking Fund Redemption** - The State may issue bonds that are subject to a sinking fund redemption that allows the State to call or redeem portions of its term bonds prior to their stated maturities with funds that have been set aside in a sinking fund for that purpose.

- **Extraordinary Redemption** - The State may issue bonds that are subject to an extraordinary redemption provision that gives the State the right to call or redeem its bonds due to an unusual, one-time event.

Refunding Outstanding Debt

The Board may refund (refinance) outstanding bonds by issuing new bonds of which the proceeds are used to repay the refunded bonds. SGF with assistance from the Board's Financial Advisor will have the responsibility to analyze outstanding bond issues for refunding opportunities. The Financial Advisor will conduct an analysis to identify all refunding candidates at least semiannually.

A. Refunding Considerations

- **Advance Refunding** - An advance refunding may be considered when the refunding results generate a present value savings of at least 4% per series of refunded bonds. Consideration will be given to escrow efficiency when reviewing refunding candidates. Current tax law only allows taxable advance refunding transactions.
- **Current Refunding** - A current refunding may be considered when the refunding results in (1) aggregate present value savings of at least 2% per series of refunded bonds or (2) present value savings per series that is equal to or greater than twice the cost of issuance allocable to the refunding series.
- **Refunding for Other Purposes** - Bonds may be refunded if necessary (1) due to a change in the use of a project that would require a change to the tax status of the bonds, (2) because the project is sold or no longer in service while still in its amortization period or (3) because the restrictive covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.
- **Present Value Savings Calculation** - Unless otherwise agreed upon by 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 for a net funded escrow, is the net present value of the escrow requirements (plus the additional cash deposit on the final requirement date) discounted at the arbitrage yield to the escrow purchase date. For a gross-funded escrow, the perfect escrow cost is the sum of the escrow requirements.

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.

B. Term of Refunding Issues

The final maturity of the refunding bonds will not extend beyond the fiscal year of the 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 seek 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 consideration 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 will seek to optimize efficiency on refunding escrows and to avoid negative arbitrage in its refunding subject to Tenn. Code Ann. §9-4-602 and 9-4-603. Any positive arbitrage will be subject to rebate in accordance with federal guidelines (see also "Federal Regulatory Compliance and Continuing Disclosure – A. Arbitrage").

Methods of Sale

Pursuant to Tenn. Code Ann. §9-9-205 and 9-9-207, 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, SGF, with the assistance of the Financial Advisor will 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. A competitive sale is the Board's preferred method of sale.

B. Negotiated Sale

While the Board prefers to sell its bonds through a competitive sale, it recognizes there are situations when it is best to negotiate the sale of its bonds. The underwriting team will be selected, and the underwriter's fees negotiated prior to the sale. See section below titled "Selection of Underwriting Team (Negotiated Transaction)." The Board will consider the following factors in determining whether to conduct a negotiated bond sale:

- The bond structure may require a pre-marketing effort;
 - Fixed or variable rate bonds
 - Taxable or tax-exempt bonds
 - New money or refunding bonds
- Volatility in market conditions may require flexibility in the timing of the sale;
- Size of the bond sale which may limit the number of potential purchasers;
- Legal or disclosure issues make it advisable in marketing the bonds; and/or

- Credit strength.

C. Private Placement

The Board may consider privately placing its bonds in certain situations, such as:

- the small amount of bonds to be sold does not warrant public sale;
- the structure is complicated for a public debt issuance;
- the number of potential purchasers is limited; and/or
- the private placement results in a cost savings to the Board in comparison to other methods of debt issuance.

Selection of Underwriting Team (Negotiated Transaction)

The primary role of the underwriter and underwriting team in a negotiated bond sale is to market the State's bonds to investors. Underwriters often provide ideas and suggestions with respect to structure, timing, and marketing process for the bonds being sold. The underwriters also work with the State's Financial Advisor and financing team in the bond rating process. The roles of the underwriter and the Financial Advisor are separate, adversarial roles that cannot be provided by the same party. The Board will require an 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 the State's bonds to be sold. The underwriter must clarify its primary role as a purchaser of securities in an arms-length negotiation 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 bond 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 transaction;
- Financing ideas presented; and
- Competitive underwriting fees.

B. Co-Managers

Co-managers may be selected based on the same criteria as the Senior Manager. The number of co-managers appointed to a specific transaction may be dependent upon the transaction size with the need 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 its bond sales 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 included in the transaction, the Secretary or Assistant Secretary of the Board, at his or her discretion, may appointment new members to the 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 will seek to achieve the highest bond ratings possible, consistent with the Board's financing objectives. If the State's credit ratings are downgraded below the AAA rating, the Board will immediately review its capital funding and debt strategy and take necessary steps within the Board's authority to avoid additional downgrades and restore the AAA rating, if possible. If a downgrade is a result of a criteria change, SGF will work with the credit rating agencies to understand the implications of the criteria and provide a summary to the Board.

SGF will be responsible for communicating information to the rating agencies to keep them informed of significant developments throughout the year. SGF will schedule rating agency calls and/or visits prior to the issuance of general obligation bonds or if the Board decides to move forward with a plan of finance that includes variable rate debt, a new CP program, 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 execute an engagement letter with each respective agency prior to submitting documentation for the rating.

Credit Enhancements

The Board may consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost. The Board may determine that a credit enhancement is necessary to sell debt in the capital market. In other cases, there may be an economic benefit to securing a credit enhancement; however, cost savings would need to be demonstrated. SGF may consider the following enhancements while evaluating the cost versus benefit of such enhancements:

A. Bond Insurance

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

B. Letters of Credit

The Board may enter into a letter-of-credit (LOC) agreement if such an agreement is deemed prudent and advantageous. SGF will prepare and distribute an RFP to qualified banks or other qualified financial institutions that includes terms and conditions that are acceptable to the Board. The LOC will be awarded

to the bank or financial institution with the highest credit quality that provides a proposal with the lowest cost that meets the criteria established by the State.

C. Liquidity

For variable rate debt that requires a liquidity facility to mitigate remarketing risk, the Board will evaluate:

- The cost of alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and lines of credit, in comparison to the cost of the inability to issue debt due to an illiquid market;
- Whether the facility needs to be diversified among liquidity providers, to limit credit exposure to any individual liquidity provider;
- All cost components attributed to the liquidity facility, including commitment fees, standby fees, draw fees, and interest expense on amounts drawn on the facility; and
- A comparative analysis and evaluation of the cost of external liquidity providers compared to the cost for self-liquidity.

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

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

SGF will evaluate each transaction to assess the types and amounts of risk associated with each transaction and consider all available means to address and mitigate the risks. SGF will evaluate all proposed transactions to ensure consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

A. Private Business Use

Private business use of a project or facility financed with tax-exempt bonds may cause the interest on the tax-exempt bonds to be taxable to the owner of the bonds.

B. Default Risk

- **Payment (monetary) default risk** – The risk that the State defaults on its debt obligations by not making its debt service payments by the due date.
- **Technical default risk** – The risk that the State fails to comply with the covenants or conditions (non-financial terms) of its debt obligations.

C. Liquidity Risk

The risk that an illiquid capital market would impede the State's ability to issue or remarket debt along with the risk of having to pay a higher interest rate to the liquidity provider in the event of a failed remarketing of short-term debt.

D. Interest Rate Risk

The risk that market interest rates change based on conditions which are outside the control of the State. Debt with variable rates could be subject to interest rate volatility and based on market conditions rates could be higher than estimated. Debt that includes a requirement to be refinanced could be subject to higher interest rates in the future resulting in higher interest costs.

E. Rollover Risk

The risk of refinancing debt with the rate of interest on the new debt being greater than the original rate of interest.

F. Market Risk

Risk that may arise due to changes in the municipal or other financial markets, geopolitical events, or recessions that could result in the inability to access the financial markets or borrowing in financial markets that could result in higher than expected interest rates.

Transparency

The Board will comply with the Tennessee Open Meetings Act and provide adequate notice of a public meeting. The Board will specify on the agenda any matters related to debt issuance that are to be considered. All costs related to the debt issuance, recurring and non-recurring, (including bond interest and costs of issuance) shall be disclosed to the general public in a timely manner. Additionally, in accordance with the State's Continuing Disclosure Undertaking (CDU), 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 pursuant to 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 the sale;
- Filing the Debt Report with the Board not later than forty-five days following the issuance or execution of a debt obligation, with a copy filed with the Division of Local Government Finance (LGF) pursuant to Tenn. Code Ann. §9-21-134; and
- Electronically submitting information necessary to satisfy the Board's continuing disclosure requirements for the bonds through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website in a timely matter (see "Federal Regulatory Compliance and Continuing Disclosure").

Professional Services

The Board requires all professionals engaged in assisting in the State's debt issuance transactions to clearly disclose all compensation and consideration received relative to services provided to include "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, that serves as counsel to SGF regarding Board matters.

B. Bond Counsel

Bond counsel shall be engaged through SGF and serve to assist the Board in all matters related to its general obligation debt issues under a written engagement letter.

C. Financial Advisor

The Financial Advisor shall be engaged through SGF and serve to assist the Board on financial matters under a written contract. 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. The Financial Advisor shall be a registered municipal advisor with the Municipal Securities Rulemaking Board (MSRB).

D. Dealer or Remarketing Agent

The Board may enter into a Dealer Agreement with the appointed CP dealer or Remarketing Agent Agreement associated with variable rate debt offerings. The Dealer and/or Remarketing Agent agrees to offer and sell the CP or other variable rate debt, on behalf of the Board, to investors and other entities and individuals that purchase CP.

E. Issuing and Paying Agent

The Board will appoint an Issuing and Paying Agent to act as paying agent and registrar for the State's CP at all times while the CP is outstanding. The Board will execute an Issuing and Paying Agency Agreement with the 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 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 and Registrar services.

H. Verification Agent

The Verification Agent will be selected through a RFP process prior to the issuance of refunding bonds, if required. The Verification Agent will verify 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 RFP 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 to the State 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 understand 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 violates 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 the Resolution to the Board for approval, the Director of SGF (the “Director”), with the assistance of the Financial Advisor, will present to the Board’s staff 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,
- The Director (with the assistance of SGF staff), Bond Counsel, and Financial Advisor, along with other members of the financing team will prepare the preliminary offering document (i.e., a Preliminary Official Statement) describing the transaction and the security for the debt that is fully compliant with all legal requirements; and
- 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.

B. Preparing for Bond Closing

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

- The Director (with the assistance of SGF staff), Bond Counsel, and Financial Advisor, along with other members of the financing team will prepare the offering document (i.e., 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 Debt Report outlining costs related to the issuance and other information set forth in Tenn. Code Ann. § 9-21-134, present the report at the next meeting of the Board and file a copy with 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 and reporting all arbitrage earnings associated with the financing and submitting any tax liability that may be owed to the Internal Revenue Service (IRS).
- 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 SGF staff) will, no less than annually, request and receive confirmation from the responsible departments that there has been no change in use of tax-exempt financed facilities.

For additional information on planning and preparing for a bond sale, see the Standard Operating Procedure Bond Issuance and Checklist.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

The Board, through SGF, will comply with arbitrage requirements on invested tax-exempt bond proceeds. 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 its 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 Tenn. Code Ann. §9-9-110, 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) shall be rated no 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 in such amounts that will be sufficient without reinvestment, together with any cash on deposit, to redeem the bonds to be refunded and to pay all interest due on the bonds to be refunded.

C. Disclosure

The Board will disclose the State's audited Annual Comprehensive Financial Report on the EMMA website 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. The Board will also, in accordance with the CDUs, disclose on the EMMA website within ten business days after the occurrence of any of the following events relating to the bonds to which the CDUs 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 IRS 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. The Board adopted the amended Policy on September 16, 2013, effective September 16, 2013.
3. The Board adopted the amended Policy on May 11, 2017, effective May 11, 2017.
4. The Board adopted the amended Policy on March 2, 2018, effective March 2, 2018.
5. The Board adopted the amended Policy on June 27, 2019, effective June 27, 2019.
6. The Board adopted the amended Policy on July 22, 2021, effective July 22, 2021.
7. The Board adopted the amended Policy on July 22, 2024, effective July 22, 2024.
8. The Board adopted the amended Policy on June 23, 2025, effective June 23, 2025.

Secretary
Tennessee State Funding Board

APPENDIX A

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

**DECLARATION OF TRUST
FOR
OTHER POST-EMPLOYMENT BENEFITS**

A Declaration of Trust made as of the 27th day of May, 2025, by West Knox Utility District (hereinafter referred to as the "Employer"). This Trust shall come into existence when the Tennessee State Funding Board created pursuant to Tennessee Code Annotated, Section 9-9-101, has approved the same.

RECITALS

WHEREAS, the Governmental Accounting Standards Board ("GASB") issued Statements 74 and 75, which set forth standards on accounting and reporting for post-employment benefits (other than pensions) by governmental entities; and

WHEREAS, these standards require political subdivisions of the State of Tennessee to report such other post-employment benefits on an actuarial basis during an employee's career rather than on a pay-as-you-go basis during retirement; and

WHEREAS, a governmental plan or employer may reduce or eliminate its net OPEB Liability (as defined in GASB 74 or GASB 75) by making contributions to an irrevocable trust in relation to such anticipated benefits; and

WHEREAS, the Tennessee General Assembly enacted Chapter 771 of the Tennessee Public Acts of 2006 that authorized Tennessee political subdivisions that offer other post-employment benefits to create an investment trust whereby the political subdivisions may begin financing those benefits in advance; and

WHEREAS, the Employer is a political subdivision of the State of Tennessee that is exempt from federal income tax under the Internal Revenue Code of 1986, as amended from time to time, and whose chief governing body has passed a resolution authorizing the establishment of this investment trust for the exclusive purpose of funding other post-employment benefits accrued by employees of the Employer, to be paid as they come due in accordance with the arrangements between the Employer, the Participants and their Beneficiaries, as such terms are defined in Section 1.1 below.

NOW, THEREFORE, in consideration of the premises, the Employer does hereby establish this Trust to be known as the West Knox Utility District Post-Employment Benefits Trust.

ARTICLE I DEFINITIONS

1.1. Definitions. For purposes of this Declaration of Trust, the following terms shall have the respective meanings set forth below unless otherwise expressly provided.

- (a) "Beneficiary" means the Spouse, Dependents, or the person or persons designated by a Participant pursuant to the terms of a post-employment benefits plan to receive any benefits payable under the plan.
- (b) "Board" means the board of trustees created pursuant to Section 5.1 of this Trust.
- (c) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (d) "Dependent" means a dependent, as described in Section 152(a) of the Internal Revenue Code of 1986, as amended from time to time, determined without regard to subsections (b)(1), (b)(2) and (d)(1)(B) thereof, of a Participant.
- (e) "Directed Trustee" means Commercial Bank and Trust, and its successors and assigns, or such other entity as may be appointed by the Board to provide trust services pursuant to Section 6.1(b) of this Trust.
- (f) "Employee" means an individual who performs services for the Employer, and who has been designated as eligible to participate in, and receive benefits under a post-employment benefits plan.
- (g) "Employer" means the West Knox Utility District.
- (h) "OPEB Liability" means the net liability for post-employment benefits other than pension benefits under GASB 74 or GASB 75.
- (i) "Other post-employment benefits" ("OPEB") or "post-employment benefits" means non-pension benefits paid on behalf of a former Employee or a former Employee's Beneficiary after separation from service. Such benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability.
- (j) "Participant" means an Employee of the Employer who satisfies the requirements for participation in a post-employment benefits plan sponsored by the Employer.
- (k) "Spouse" means the spouse of a Participant in a marriage of two individuals if such marriage would be recognized by any state, possession, or territory of the United States.

- (l) "State Funding Board" or "Funding Board" means the board created pursuant to Tennessee Code Annotated, Section 9-9-101.
- (m) "Trust" means the trust created and established hereunder.

ARTICLE II PURPOSE AND SCOPE OF TRUST

- 2.1. This Trust is established exclusively for the purpose of funding other post-employment benefits accrued by Employees of the Employer, to be paid as they come due in accordance with the terms of the Employer's respective post-employment benefits plan.
- 2.2. Nothing in this Trust shall be construed to define or otherwise grant any rights or privileges to post-employment benefits. Such rights and privileges, if any, shall be governed by the terms of the Employer's respective post-employment benefits plan.

ARTICLE III TRUST ASSETS

- 3.1. This Trust shall consist of all contributions paid or otherwise delivered to it, and all investment income and realized and unrealized gains and losses.
- 3.2. The Trustees shall receive and accept for the purposes hereof all contributions described herein and shall hold, invest, reinvest, manage, administer, and distribute property and the increments, proceeds, earnings, and income solely to meet OPEB Liabilities and provide other post-employment benefits as described herein, and in accordance with Code Sections 105 and 106.
- 3.3. All assets held by the Trustees in the Trust are referred to herein as the "Trust Fund." The Trustees have the authority to invest and manage the assets of the Trust Fund.
- 3.4. The contributions made to the Trust and all investments, receipts, disbursements, and other transactions thereunder may be maintained in a common account, which contributions shall be used solely for the payment of benefits, expenses and other charges properly allocable to the Trust.
- 3.5. The Trust Fund shall continue to be held by the Trustees in trust and dealt with in accordance with the provisions of the Trust. At no time shall any part of the Trust Fund be used for, or diverted to, purposes other than for the exclusive benefit of Participants and their eligible Spouses and Dependents, as applicable, as provided herein and for defraying the reasonable expenses of administering the Trust.

ARTICLE IV TRUST CONDITIONS

- 4.1. This Trust shall be irrevocable, and the assets of this Trust shall be preserved, invested and expended solely pursuant to and for the purposes of this Declaration of Trust and shall not be loaned or otherwise transferred or used for any other purpose. During the life of the Trust, no portion of the principal or income of this Trust shall revert to the Employer. The assets of the Trust shall be expended solely to:
- (a) Make payments for other post-employment benefits pursuant to and in accordance with terms of the post-employment benefits plan; and
 - (b) Pay the cost of administering this Trust.
- 4.2. This Trust shall have the powers, privileges and immunities of a corporation; and all of its business shall be transacted, all of its funds invested, and all of its cash and securities and other property held in trust for the purpose for which received.
- 4.3. All assets, income and distributions of the Trust shall be protected against the claims of creditors of the Employer, Employees, Former Employees, Participants or their Beneficiaries, and shall not be subject to execution, attachment, garnishment, the operation of bankruptcy, the insolvency laws or other process whatsoever, nor shall any assignment thereof be enforceable in any court.

ARTICLE V BOARD OF TRUSTEES

- 5.1. The general administration and responsibility for the proper operation of this Trust shall be governed by a board of trustees (hereinafter the "Board"). The Board shall consist of individuals who hold the following titles:
- (a) General Manager
 - (b) Comptroller
 - (c) Accounts Payable Specialist
 - (d) _____
 - (e) _____
- 5.2. The Board shall annually elect from its membership a chair and a vice chair and shall designate a secretary who need not be a member of the Board. Written minutes covering all meetings and actions of the Board shall be prepared by the secretary and shall be kept on file, open to public inspection pursuant to the provisions of Tennessee Code Annotated, Title 10, Chapter 7.

- 5.3. Members of the Board shall serve without compensation but shall receive reasonable reimbursement for actual and necessary travel expenses in accordance with the Employer's travel regulations.
- 5.4. A majority of the voting members of the Board serving shall constitute a quorum for the transaction of business at a meeting of the Board. Voting upon action taken by the Board shall be conducted by a majority vote of the voting members present at the meeting of the Board. The Board shall meet at the call of the chair, or upon the call of a majority of the members, and as may be otherwise provided in any operating policies or procedures adopted by the Board.
- 5.5. The business of the Board shall be conducted at meetings of the Board held in compliance with Tennessee Code Annotated, Title 8, Chapter 44.

ARTICLE VI POWERS AND DUTIES OF THE BOARD

- 6.1. In addition to the powers granted by any other provisions of this Trust, the Board shall have the powers necessary or convenient to carry out the purposes and objectives of this Trust including, but not limited to, the following express powers:
 - (a) Invest any funds of the Trust in any instrument, obligation, security, or property that constitutes legal investments for assets of the Trust as described in applicable law, including without limitation Tennessee Code Annotated, Section 8-50-1201, et seq., as amended from time to time, including the use of mutual funds, commingled investment funds or collective investment trusts, institutional accounts, or master trusts, provided that any such investment is authorized in the investment policy adopted, and from time to time amended, by the chief governing body of the Employer.
 - (b) Contract for the provision of all or any part of the services necessary for the management and operation of the Trust, including, but not limited to, trust and custody services and investment management services;
 - (c) Contract with financial consultants, auditors, and other consultants as necessary to carry out its responsibilities under the provisions of this Trust;
 - (d) At the Board's sole discretion, contract with an actuary or actuaries for the benefit of the Employer in determining the level of funding necessary by the Employer to fund the other post-employment benefits offered by the post-employment benefits plan;
 - (e) Prepare annual financial reports, including audited financial statements, following the close of each fiscal year relative to the activities of the Trust. Such statements and reports shall contain such information as shall be

prescribed by the Board and be prepared in accordance with the standards established by the Governmental Accounting Standards Board; and

- (f) Upon the request of the State Funding Board, file the annual report and financial statements with the secretary of the State Funding Board. The report and statements shall be filed with the secretary of the Board within ninety (90) calendar days from the date of the request, unless the secretary extends such time in writing.
- (g) To determine, consistent with the applicable laws, rules or regulations, all questions of law or fact that may arise as to any person or entity claiming rights under the Trust;
- (h) Subject to and consistent with GASB 74 and 75, Code Section 115 and applicable law, to construe and interpret the Trust and to correct any defect, supply any omission, or reconcile any inconsistency in the Trust;
- (i) To adopt and amend bylaws governing its operations and procedures;
- (j) To provide for termination of trusteeship and transfer of assets to successor trustees as permitted by law;
- (k) To employ legal counsel;
- (l) To employ and contract with auditors, accountants, investment advisers, investment brokers, consultants, medical personnel, and other agents and employees;
- (m) Subject to Articles IX and X, to collect and disburse all funds due and payable under the Trust;
- (n) To provide for and promulgate all the rules, regulations, and forms that are deemed as necessary or desirable in fulfilling its purposes of assisting in providing other post-employment benefits and in maintaining proper records and accountings consistent with GASB Statement 74 and 75 and Internal Revenue Service standards;
- (o) To adopt an Investment Policy Statement and asset allocation;
- (p) To bring and defend actions, sue and be sued, and plead and be impleaded;
- (q) To expend funds for the purchase of fidelity and surety bonds and liability insurance for the protection and indemnification of Trustees in the performance of their duties;
- (r) To expend funds for the reasonable expenses of the Trustees while engaged in the performance of their duties;

- (s) To employ insurance companies, banks, trust companies, and investment brokers as agents for the keeping of records and the receipt and disbursement of funds held by or due the Trustees;
 - (t) To exercise generally any of the powers of an owner with respect to all or any part of the Trust Fund; and
 - (u) To take all actions consistent with this Declaration of Trust necessary or appropriate to administer or carry out the purposes of the Trust; provided, however, the Trustees need not take any action unless, in their opinion, there are sufficient Trust assets available for the expense thereof.
- 6.2. The Trustees may buy fiduciary liability insurance or errors and omissions insurance, as described above. However, all such insurance shall provide that proceeds shall be payable to the Trust and shall contain express provisions reserving to the insurer executing the same the full right of recourse against all parties or other individuals whose errors, acts, omissions, or breaches may obligate such insurer to make payments to the Trust.
- 6.3. In addition to the powers stated in Section 6.1, the Trustees may from time to time delegate to an individual, committee, or organization certain of its fiduciary responsibilities under the Trust. Any such individual, committee, or organization shall remain a fiduciary until such delegation is revoked by the Trustees, which revocation may be without cause and without advance notice. Such individual, committee, or organization shall have such power and authority with respect to such delegated fiduciary responsibilities as the Trustees have under the Trust.
- 6.4. The Trustees may rely upon a certification of the Employer with respect to any instruction, direction, or approval of such Employer and may continue to rely upon such certification until a subsequent certification is filed with the Trustees. The Trustees shall have no duty to make any investigation or inquiry as to any statement contained in any such writing but may accept the same as fully authorized by the Employer.
- 6.5. The Trustees shall be protected further in relying upon a written certification that purports to be from any custodian, investment manager, insurance company, or mutual fund as to the person or persons authorized to give instructions or directions on behalf of such custodian, investment manager or insurance company and continue to rely upon such certification until a subsequent written certification is filed with the Trustees.
- 6.6. The Trustees' responsibilities and liabilities shall be subject to the following limitations:
- (a) The Trustees shall have no duties other than those expressly set forth in this Declaration of Trust and those imposed on the Trustees by applicable laws.

- (b) The Trustees and the Trust Administrator shall not be responsible for any particular federal, state or local income, payroll or other tax consequence to the Employer or a Participant, Spouse, or Dependent.
 - (c) The Trustees shall be responsible only for money and property actually received by the Trust, and then to the extent described in this Declaration of Trust.
 - (d) The Trustees shall not be responsible for the correctness of any determination of payments or disbursements from the Trust Fund.
 - (e) No Trustee shall have any liability for the acts or omissions of any predecessor or successor in office.
 - (f) The Trustees shall have no liability for (i) the acts or omissions of any investment manager or managers; (ii) the acts or omissions of any insurance company; (iii) the acts or omissions of any investment fund; (iv) the acts or omissions of any custodian; (v) the acts or omissions of the trust administrator; or (vi) the acts or omissions of any contractor.
- 6.7. The Trust shall, and hereby does, to the extent permitted by law, indemnify the Trustees, including persons who have served as such in the past or who are heirs, executors, or administrators thereof, against expenses (including attorney's fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any actual or threatened proceeding of any kind, arising by reason of the fact that any such person is or was a Trustee, and shall advance to such person expenses reasonably incurred in defending any such proceedings as permitted by law. Such indemnity shall apply, however, only if, in connection with the matter at issue, the person claiming indemnity hereunder acted in good faith and in a manner he or she reasonably believed was in the best interests of the Trust. This indemnity does not extend to any acts of the person seeking indemnity which involve gross negligence or willful misconduct, or are materially in breach of this Agreement, or any bylaw. The Trustees may obtain and may rely on a written opinion of independent legal counsel on any issues of good faith, reasonable belief, or breach, or on any and all other issues that may bear on the application of this indemnity.

ARTICLE VII

POWERS AND DUTIES OF THE DIRECTED TRUSTEE

- 7.1. The Directed Trustee shall act solely in a directed capacity hereunder and shall act solely as directed by the Board or Employer. It shall be the duty of the Directed Trustee to receive, hold, manage, invest and reinvest the Trust funds and to make payments from the Trust in accordance with governing law and the provisions set forth herein pursuant to this Trust. The Directed Trustee shall be responsible for such sums as are actually received by it as Directed Trustee hereunder. The Directed Trustee shall have no duty or authority to ascertain whether any

contributions should be made to it pursuant to the post-employment benefits plan. The duties and obligations shall be limited to those expressly imposed upon it by this Trust.

ARTICLE VIII INVESTMENTS

- 8.1. The Board shall be responsible for investing the assets of the Trust funds in accordance with Section 6.1(a) above.
- 8.2. Subject to the limitations in Section 6.1(a) above, the Board, or its nominee, has full power to hold, purchase, sell, assign, transfer, or dispose of any of the securities or investments in which the assets of the Trust have been invested, as well as of the proceeds of such investments and any moneys belonging to the Trust.
- 8.3. All of the Board's business shall be transacted, all of the Trust funds invested, all warrants for money drawn, any payments made, and all of the cash and securities and other property of the Trust shall be held:
 - (a) In the name of the Board as title holder only, or as Trustee;
 - (b) In the name of its nominee; provided, that the nominee is authorized by Board resolution solely for the purpose of facilitating the transfer of securities and restricted to members of the Board, or a partnership composed of any such members; or
 - (c) For the account of the Board or its nominee in such forms as are standard in the investment community for the timely transaction of business or ownership identification, such as book entry accounts.
- 8.4. Except as otherwise provided, no Board member nor employee of the Board shall have any personal interest in the gains or profits of any investment made by the Board; nor shall any Board member or employee of the Board, directly or indirectly, for such member or employee or as an agent, in any manner for such member or employee or as an agent, in any manner use the same except to make such current and necessary payments as are authorized by the Board.

ARTICLE IX EMPLOYER CONTRIBUTIONS TO TRUST

- 9.1. Notwithstanding Section 6.1(d) above, it shall be the sole and exclusive responsibility of the Employer to determine the level of contributions the Employer will make to the Trust for the purpose of financing the post-employment benefits accrued by its respective Employees. Neither the Trust, nor the Board shall be responsible for collecting or otherwise determining the level of contributions needed by the Employer to finance any post-employment benefits offered by the Employer.

ARTICLE X
WITHDRAWALS FOR PAYMENT OF OTHER POST-EMPLOYMENT
BENEFITS

- 10.1. The Board shall upon the request of the Employer reimburse the Employer for payments made for other post-employment benefits upon the Board's receipt of certified documentation evidencing the payment. Such payments shall be made by the Board on no more than a quarterly basis.
- 10.2. Notwithstanding anything in this part to the contrary, the Board shall not honor a request for reimbursement made by the Employer under this Article if assets credited to the Trust are not equal to or greater than the amount requested. Retroactive payments shall be paid by the Board upon accumulation of sufficient assets.

ARTICLE XI
BOOKS AND RECORDS

- 11.1. The books and records of the Trust shall be maintained in accordance with generally accepted accounting principles and shall be open to public inspection as required by law. The annual report, including financial statements, all books, accounts and financial records of the Trust shall be subject to audit by the State Comptroller of the Treasury.
- 11.2. The Board may, with the prior approval of the State Comptroller of the Treasury, engage a licensed certified public accountant to perform the audits. The audit contract between the Board and the certified public accountant shall be on a contract forms—prescribed by the State Comptroller of the Treasury. Reimbursement of the costs of audits prepared by the State Comptroller of the Treasury and the payment of fees for audits prepared by a licensed certified public accountant shall be the responsibility of the Board, which may be paid from the assets of the Trust.

ARTICLE XII
AMENDMENT

- 12.1. The Employer shall have the right at any time and from time to time to amend, in whole or in part, any or all of the provisions of this Trust; however, no such amendment shall authorize or permit the assets of the Trust (other than such part as may be used to pay the expenses of administering the Trust) to be used for or diverted to purposes other than those expressed in this Declaration of Trust. Any such amendment shall not be effective until approved by resolution of the chief governing body of the Employer, and by the State Funding Board.

ARTICLE XIII
PLAN TERMINATION OR MODIFICATION

- 13.1. In the event the other post-employment benefits plan is terminated or substantially modified rendering the assets of this Trust to be unnecessary to fund the plan, the assets shall be distributed pursuant to Section 13.2 below.
- 13.2. The Trust shall have perpetual existence, except if dissolved by the Board. Following any such dissolution, the Board shall proceed to wind up the affairs of the Trust in an orderly manner and within a reasonable period of time considering relevant circumstances. After paying or making reasonable provision for the payment of all liabilities of the Trust, and upon receipt of such releases, indemnities or like documentation as the Trustees may reasonably deem necessary for the protection of the Trustees, the Trustees shall distribute the remaining property of the Trust, in cash or in kind or partly each, for the sole purpose of assisting in the payment of post-employment benefits for Participants, Spouses, and Dependents, and for related reasonable expenses, fees and allocated administrative fees and expenses. Upon the satisfaction of all liabilities under the Trust, any remaining assets shall be transferred to another entity whose income is excluded from gross income under Code Section 115. In no event will Trust assets be distributed to or revert to any entity that is not an entity whose income is excluded from gross income under Code Section 115.
- 13.3. Actuarial valuations contemplated by this Article shall be performed by the plan's independent consulting actuary in accordance with actuarial methods recognized by the Governmental Accounting Standards Board for other post-employment benefits.

ARTICLE XIV
PARTICIPANT OR BENEFICIARY CONTRIBUTIONS TO TRUST

14.1. If Participant or Beneficiary contributions are required or permitted under the terms of the other post-employment benefits plan, such contributions shall be assets of this Trust and subject to all the provisions of this Trust. Provided, however, the Employer or its designee shall establish a record keeping account for each Participant or Beneficiary showing the amount of contributions made by such Participant or Beneficiary, and to the extent authorized under the Plan, any earnings or interest thereon.

ARTICLE XV
PROTECTIVE CLAUSE

- 15.1. Neither the Employer, the Board, nor the Trust shall be responsible for the validity of any contract of insurance or other arrangement maintained in connection with the post-employment benefits plan, or for the failure on the part of the insurer or provider to make payments provided by such contract, or for the

action of any person which may delay payment or render a contract void or unenforceable in whole or in part.

ARTICLE XVI CONSTRUCTION

- 16.1. This Trust created herein shall be governed by and construed in accordance with the laws of the State of Tennessee.
- 16.2. If any terms and conditions of this Trust are held to be invalid or unenforceable as a matter of law, the other terms and conditions of this Trust shall not be affected thereby and shall be construed to effectuate the purpose of this Trust.
- 16.3. This Trust Agreement shall be binding upon the Trustees, the Employer, and, as the case may be, the delegates, successors, and assigns of each of them.
- 16.4. Necessary parties to any accounting, litigation, or other proceedings relating to the Trust Agreement shall include only the Trustees. The settlement or judgment in any such case in which the Trustees are duly served or cited shall be binding upon all persons claiming by, through, or under this Trust.
- 16.5. The terms of the Declaration of Trust shall supersede any previous oral or written agreement between the parties to this Trust pertaining to matters that are the subject of the Trust.
- 16.6. If the Trustees make any payment that according to the terms of the Trust and the benefits provided hereunder should not have been made, the Trustees may recover that incorrect payment, by whatever means necessary, whether or not it was made due to the error of the Trustees, from the person to whom it was made or from any other appropriate party. For example, the Trustees may deduct the amount of the incorrect payment when making any future payments to the recipient of the incorrect payment.
- 16.7. Any payment to the Employer insurance company, or any other recipient (or their respective designee), shall, to the extent thereof, be in full satisfaction of the claim of such entity being paid thereby and the Trustees may condition payment thereof on the delivery by the recipient, or its designee, of the duly executed receipt and release in such form as may be determined by the Trustees.
- 16.8. The Trust provides no guaranty that payments or reimbursements to employees, former employees, retirees, spouses or beneficiaries will be tax-free. The Trust will obtain a ruling from the Internal Revenue Service concerning only the federal tax treatment of the Trust's income. That ruling may not be cited or relied upon by the any party whatsoever as precedent concerning any matter relating to the Employer's health plan(s) (including post-retirement health plans). In particular, that ruling has no effect on whether contributions to the Employer's health plan(s) or payments from the Employer's health plans (including reimbursements of medical expenses) are excludable from the gross income of employees, former

employees or retirees, under the Internal Revenue Code. The federal income tax consequences to employees, former employees and retirees depend on the terms and operation of the Employer's health plan(s).

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EMPLOYER:

By: West Knox Utility District

Name: JAMES BRIAN REESE

Title: GENERAL MANAGER

TRUSTEES:

[Signature]
Erica Juliana Lopez

[Signature]
Beth Ann Paul

DIRECTED TRUSTEE:

[Signature]
Mr. Men & 11/1/2017

APPROVED:

Chair of State Funding Board

Date