

TENNESSEE STATE FUNDING BOARD

June 27, 2019

The Tennessee State Funding Board (the "Board") met on Thursday, June 27, 2019, at 10:55 a.m., in the Cordell Hull Building, 1st Floor, House Hearing Room II, Nashville, Tennessee. The Honorable David Lillard, State Treasurer, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
Commissioner Stuart McWhorter, Department of Finance and Administration

The following members were absent:

The Honorable Bill Lee, Governor
The Honorable Justin Wilson, Comptroller of the Treasury

Seeing a physical quorum present, Mr. Lillard called the meeting to order and barring any further comment, asked approval of the minutes from the May 9, 2019 meeting. Mr. Hargett made a motion to approve the minutes. Mr. McWhorter seconded the motion, and it was unanimously approved.

Mr. Lillard recognized Mr. Bob Rolfe, Commissioner of Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting, the FastTrack balance was \$209,360,605.25. Since that time, \$2,366,187.76 of funds had been appropriated as a result of interest earnings from December of 2018 through April of 2019 and \$626,009.41 in funds had been deobligated and returned to the FastTrack program; \$612,585.37 of funds had been transferred from FastTrack to the Department of Agriculture for a biofuels project originally appropriated in 2007, but currently unused; \$11,887,900 in new loans had been approved; and \$95,033.40 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$199,757,283.65 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$186,542,799.17, resulting in an uncommitted FastTrack balance of \$13,214,484.48. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$12,923,500.00, and if these projects were approved, the uncommitted balance would be \$290,984.48 and the total committed balance would be \$199,466,299.17, which represented 99.9% of the FastTrack balance.

Mr. Lillard, without objection from the Board, requested that the projects be presented all at one time and Mr. Rolfe agreed. Mr. Rolfe then presented the following FastTrack projects:

- **Ebm-papst, Inc. – Johnson City (Washington County)**
FastTrack Economic Development Grant \$ 800,000
- **SmileDirectClub, LLC/Access Dental Lab, LLC – Nashville & Antioch (Davidson County)**
FastTrack Economic Development Grant \$ 3,500,000
FastTrack Job Training Assistance \$ 6,550,000

- **Western Express, Inc. – Nashville (Davidson County)**
FastTrack Economic Development Grant \$ 1,300,000
- **Pilot.com, Inc. – Nashville (Davidson County)**
FastTrack Job Training Assistance \$ 773,500

The Board received in their packets signed letters, FastTrack checklists, and incentive acceptance forms signed by Mr. Rolfe. Mr. Lillard inquired if the information provided in the ECD packets was true and correct and Mr. Rolfe responded affirmatively. Mr. Lillard also inquired if the companies that had signed the incentive acceptance forms fully understood the agreements and Mr. Rolfe responded affirmatively. Mr. Lillard made a motion to approve the FastTrack projects that were presented. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Mr. Trent Ridley, Chief Financial Officer of the Tennessee Housing Development Agency (“THDA”), who presented for consideration and approval the THDA’s Schedule of Financing (the “Schedule”) for fiscal year 2019-2020. Mr. Ridley related to the Board that THDA was required to present the Schedule pursuant to Section 13-23-120(e)(1), Tennessee Code Annotated. Mr. Ridley stated that the Schedule was previously approved by THDA’s Bond Finance Committee and Board of Directors. Mr. Ridley reported that the Schedule reflected a total of \$475,000,000 in bonds to be issued in fiscal year 2019-2020, which included \$30,000,000 in refunding bonds. Mr. Ridley further reported that this past year was a record year for THDA with approximately \$630,000,000 in commitments, which included \$597,000,000 in home purchases. Mr. Ridley stated that as of May 31, 2019, THDA’s total debt was \$2,400,000,000, which included \$158,000,000 issued with the State of Tennessee’s moral obligation. Mr. McWhorter moved approval of the Schedule. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then brought forth before the Board a “Resolution Making Findings for Decrease in Special Revenues” which was presented pursuant to Section 9-9-104(b), Tennessee Code Annotated. Mr. Lillard then recognized Ms. Sandra Thompson, Director of the Office of State and Local Finance (“OSLF”) and Assistant Secretary to the Board, to present the Resolution for consideration. Ms. Thompson stated that the State had covenanted with bond holders that it would not decrease the Special Tax revenues that have been pledged for the payment of principal and interest on its debt unless the Board shall certify the following by resolution as required by TCA Section 9-9-104(b): . (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; and (3) fees and taxes pledged pursuant to TCA Section 9-9-104 will be sufficient to provide funds adequate to meet all payments required to be made by the Board in FY 2019.. Mr. McWhorter moved for adoption of the resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson who presented a letter from the Chief Investment Officer of the Tennessee Consolidated Retirement System (“TCRS”) addressed to the Secretary of the Board affirming that TCRS does not plan to terminate its contract prior to July 1, 2020, to serve as a standby purchaser under the State’s commercial paper program. . Ms. Thompson stated that the Board had received in their packets a draft letter from the Secretary of the Board to the Chief Investment Officer of the TCRS affirming that the Board also does not plan to terminate the contract prior to July 1, 2020. . Ms. Thompson requested approval to submit the letter to TCRS. Mr. Hargett made a motion to accept the letter from TCRS and authorized the Comptroller to notify TCRS on behalf of the Board. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Mr. Tim McClure, Assistant Chief Investment Officer, Department of Treasury, and Michael Brakebill, Chief Investment Officer, TCRS, to present revisions to the State Pooled Investment Fund Investment Policy (the "Investment Policy") for consideration. Mr. McClure stated that staff recommended changing the policy benchmark from the three-month day United States Treasury Bill to the Blackrock Treasury Strategies Institutional Fund ("Blackrock"). Mr. McClure further stated that in everyday practice Blackrock and its predecessor had been used by staff as the State Pooled Investment Fund ("SPIF") benchmark for many years. Mr. McClure explained that Blackrock was directly managed and had very similar parameters and guidelines to the SPIF which provided for a better comparison. Mr. McClure then presented amendments to the Investment Policy to add additional investment procedures for trade management and performance reporting used daily by staff; a section detailing the existing conflicts of interest policy for investment staff not previously mentioned in the Investment Policy; and amended language detailing the State Treasurer's authorization to approve exceptions to the Investment Policy for furtherance of compliance or when deemed in the best interest of the participants. Mr. McWhorter made a motion to approve the revised and restated Investment Policy. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then made a motion to reconsider the previous action of the Board with respect to the TCRS letter of affirmation of the Standby Commercial Paper Agreement. Mr. Hargett seconded the motion, and it was approved. Mr. Lillard stated that the prior motion should have been more expansive. Mr. Hargett made a motion to approve the acceptance of the letter from TCRS and authorize the Comptroller to notify TCRS on behalf of the Board and to send an executed letter to TCRS affirming the Board would not terminate the contract. Mr. McWhorter seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present a Report from the Comptroller's Office on Requests of Plans of Balloon Indebtedness (the "Report"). Ms. Thompson stated that the OSLF periodically reports to the Board on requests received from municipalities for approval to issue balloon indebtedness pursuant to TCA Section 9-21-134. Ms. Thompson further stated that the Report, enclosed in the packet, included all requests received since the last Report to the Board in early 2015. Ms. Thompson reported that the requests had been declining over time from twenty-six in fiscal year 2016 to seven in fiscal year 2019. No further action was necessary.

Mr. Lillard then recognized Ms. Ann Butterworth, Assistant to the Comptroller for Public Finance, to present the Board Guidelines for Securities and Exchange Commission ("SEC") Disclosures of Financial Obligations and Events of Default by Public Entities (the "Disclosure Guidelines") for public hearing and approval. Ms. Butterworth stated that revised Disclosure Guidelines promoted transparency in accordance with the SEC Rule 15c2-12 and in compliance with Chapter 6, Public Acts of 2019. Ms. Butterworth further stated that the Board had directed staff at the April 11, 2019, meeting to issue the proposed Disclosure Guidelines for public comment and report the results to the Board following a thirty-day comment period. Ms. Butterworth reported that the proposed Disclosure Guidelines were posted from May 17, 2019 to June 17, 2019, and one set of comments were received from Bass, Berry & Sims PLC. Ms. Butterworth further reported that many of those comments, requesting greater clarity, were reflected along with staff suggestions in the revised Disclosure Guidelines. Ms. Butterworth noted that the revised Disclosure Guidelines gave the Comptroller the authority to determine the format of the required reporting and that the reporting form was to be finalized shortly. Ms. Butterworth stated that staff recommended approval of the revised Disclosure Guidelines. Mr. Hargett made a motion to approve the revised Disclosure Guidelines as presented by staff effective June 27, 2019. Mr. McWhorter seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present for consideration and approval an amended Board Debt Management Policy (the "Policy"). Ms. Thompson stated that newly enacted Chapter 6, Public Acts of 2019 was proposed in response to changes in SEC Rule 15c2-12 that became effective February 27, 2019. Ms. Thompson further stated that staff to the Board had revised the Policy to reflect these changes and include the two additional events that are required to be disclosed under SEC Rule 15c2-12. Ms. Thompson explained that the two additional events requiring disclosure were incurrence of a financial obligation and events reflecting financial difficulty, which increased the number reportable events from fourteen to sixteen. Ms. Thompson stated that staff to the Board requested approval of the revisions to the Policy. Mr. Lillard moved to approve the revisions to the Policy. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present for consideration and approval a "Resolution Authorizing and Providing for the Issuance and Sale of General Obligation Bonds of the State of Tennessee" (the "Resolution") and delegation of authority to the Comptroller to sell and fix the details of the bonds. Ms. Thompson stated that the bond sale was scheduled for late August or early September. Ms. Thompson further stated that prior to submittal of the Resolution for approval, in accordance with the Board's Policy, the Director of OSLF presented to the staff members of the Board information concerning the purpose of the financing, the proposed structure of the financing, the source of payment pledged to the financing, proposed method of sale, all members of the proposed financing team, and an estimate of the cost of the proposed financing.

Ms. Thompson explained that the Resolution provides the following information regarding the transaction:

- It was determined that it may be beneficial to the Board to issue new money bonds to repay/refund commercial paper and to fund project costs in an amount not to exceed \$150,000,000;
- The bonds shall be issued pursuant to Title 9, Chapter 9, Tennessee Code Annotated and shall constitute direct general obligations of the State for the payment of the principal of and premium, if any and interest on which there is pledged the full faith and credit of the State.
- It may also be advisable that the State also issue a series of current refunding bonds to refund, or refinance bonds that are currently outstanding that, depending on market conditions, if refunded, may accomplish cost savings that would be in the best financial interests of the Board and accomplishes cost savings to the public.
- The current refunding bonds shall not be issued unless the issuance meets the parameters as outlined in the Board's debt management policy;
- Proposed structure - the structure of the financing would be 20 yr., level principal; may be issued as Tax-Exempt or Taxable; (will be issuing Tax-Exempt)
- Proposed method of sale - Bonds may be sold through competitive or negotiated sale; with the preferred method being competitive sale.
- A recommendation letter has been provided by the Board's financial advisor, PFM Financial Advisors, LLC, and states that it would be in the best interest of the Board to sell its bonds competitively.
- Interest cost - the True Interest Cost (TIC) of the bonds shall not exceed 5% for tax-exempt bonds and 6% for taxable bonds

Ms. Thompson explained that the following documents are provided in conjunction with the proposed bond transaction and are referenced in the Resolution:

- Official Statement (from last GO Bond Sale, Series 2018)

- Form of Preliminary Official Statement provided, a draft of which shall be distributed to the members of the Funding Board prior to publication and distribution;
- A Form of the Notice of Sale is provided (for competitive sale);
- A Bond Purchase Agreement (from GO Series 2016)
- Continuing Disclosure Undertaking in substantive form (from 2018 transaction), to be executed solely to assist the underwriters of the Bonds in complying Rule 15c2-12;
- A recommendation letter from the Board's financial Advisor, PFM Financial Advisors, LLC

Mr. Lillard made a motion to approve the Resolution that authorizes and provides for the issuance and sale of the state's general obligation bonds, and delegates the Authority to fix the details, and carry out the sale, of the bonds; and to sell the bonds through a competitive sale based on recommendation of PFM, the Board's financial advisor. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present for consideration and approval a "Resolution Allocating Funds to Defray a Portion of the Cost of Highway Bridge Construction Projects and Canceling Authorized Bonds". Ms. Thompson stated that the resolution canceled authorized bonds for bridge construction in the amount of \$29,100,000.00 and was to be effective June 27, 2019. Mr. McWhorter made a motion to approve the resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present for consideration and approval a "Resolution Certifying and Authorizing the Allocation of Funds to the Sinking Fund for the 2019-2020 Fiscal Year" to be effective July 1, 2019. Ms. Thompson stated the resolution certified the amount of taxes and fees to be deposited into the sinking fund to cover the debt service expenses for fiscal year 2019-2020. Mr. Hargett made a motion to approve the resolution. Mr. McWhorter seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present for consideration and approval a "Resolution Allocating Funds to Defray a Portion of the Cost of Highway Construction Projects and to Cancel Authorized Bonds" to be effective July 1, 2019. Ms. Thompson explained that this resolution canceled bonds for highway construction projects in the amount of \$75,000,000.00. Mr. Hargett made a motion to approve the resolution. Mr. McWhorter seconded the motion, and it was unanimously approved.

Mr. Lillard then recognized Ms. Thompson to present for consideration and approval a "Resolution Authorizing the Issuance of General Obligation Bonds of the State of Tennessee" to be effective July 1, 2019. Ms. Thompson stated that this resolution was based on the Public Acts of 2019, Chapter 0403 (the "Bond Bill"), which provided to the Department of Transportation \$124,000,000.00 for highway construction projects. Ms. Thompson stated that the State's current practice was to fund highway projects with cash and not issue the bonds. Ms. Thompson further stated that the authorization was utilized to facilitate contracts with the highway construction firms. Mr. Hargett made a motion to approve the resolution. Mr. McWhorter seconded the motion, and it was unanimously approved.

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

Approved on this 9th day of August 2019.

Respectfully submitted,


Sandra Thompson
Assistant Secretary