

TENNESSEE STATE SCHOOL BOND AUTHORITY
May 11, 2017
AGENDA

1. Call meeting to order
2. Approval of Minutes from the TSSBA meeting of March 21, 2017
3. Public Hearing on and Approval of the Tennessee State School Bond Authority Debt Policy
4. Adjourn

TENNESSEE STATE SCHOOL BOND AUTHORITY
March 21, 2017

The Tennessee State School Bond Authority (“TSSBA” or the “Authority”) met on Tuesday, March 21, 2017, 2:00 p.m., in Room G-3, Ground Floor, Tennessee State Capitol, Nashville, Tennessee. The Honorable Justin Wilson, Comptroller, was present and presided over the meeting.

The following members were also present:

Honorable Tre Hargett, Secretary of State of Tennessee
Brian Derrick, proxy for Honorable David Lillard, State Treasurer
Angela Scott, proxy for Larry Martin, Commissioner of Finance and Administration
Chancellor Flora Tydings, Tennessee Board of Regents

The following member participated telephonically:

Ron Maples, proxy for Dr. Joe DiPietro, President, University of Tennessee

The following member was absent:

Honorable Bill Haslam, Governor

Recognizing a physical quorum present, Mr. Wilson called the meeting to order and asked for a motion to approve the minutes of the meeting held on February 10, 2017. Mr. Hargett moved approval of the minutes. Mr. Wilson seconded the motion. Mr. Wilson then called upon Jacqueline Felland, Program Accountant of the Office of State and Local Finance (“OSLF”) to call roll:

Mr. Hargett	Aye
Mr. Derrick	Aye
Ms. Scott	Aye
Ms. Tydings	Aye
Mr. Maples	Aye
Mr. Wilson	Aye

Mr. Wilson then recognized Mr. Robbi Stivers, Executive Director, Officer of Capital Projects, to present a project for consideration for the University of Tennessee:

- University of Tennessee, Knoxville – Alpha Gamma Rho Housing (A89); Cost: \$2,245,000 of which \$600,000 will be financed by TSSBA; Term of Financing: 20 years as long-term financing as taxable debt

Mr. Hargett moved approval of the project. Ms. Tydings seconded the motion. Mr. Wilson then called upon Ms. Felland to call roll:

Mr. Hargett	Aye
Mr. Derrick	Aye
Ms. Scott	Aye
Ms. Tydings	Aye
Mr. Maples	Aye
Mr. Wilson	Aye

Mr. Wilson asked if there was any other business to be presented. Mr. Wilson moved to adjourn. Mr. Hargett seconded the motion. There being no questions, Ms. Felland called roll:

Mr. Hargett	Aye
Mr. Derrick	Aye
Ms. Scott	Aye
Ms. Tydings	Aye
Mr. Maples	Aye

Mr. Wilson

Aye

Approved on this ____ day of _____, 2017

Respectfully submitted,

Sandra Thompson
Assistant Secretary

TENNESSEE STATE SCHOOL BOND AUTHORITY



DEBT MANAGEMENT POLICY

Prepared by:
Office of State and Local Finance

Deleted: Submitted November 14, 2011¶
Adopted by the Authority, December 8, 2011¶
Amended by the Authority, February 4, 2013 and March 10, 2016¶

Table of Contents

Introduction	1
Purpose	1
Goals and Objectives.....	2
A. The goals of this Policy.....	2
B. The objectives of this Policy.....	2
Debt Management.....	2
A. Purpose and Use of Debt Issuance	2
B. Debt Capacity Assessment	3
C. Federal Tax Status	3
D. Legal Limitations on the Use of Debt.....	3
Types of Debt.....	4
A. Bonds.....	4
B. Short-Term Debt	4
Debt Management Structure	5
A. Term	5
B. Capitalized Interest	5
C. Debt Service	5
D. Call Provisions	5
E. Original Issuance Discount/Premium.....	5
Refunding Outstanding Debt	6
A. Refunding Proposals	6
B. Term of Refunding Issues.....	6
C. Bond Structuring	6
D. Escrow Structuring	6
E. Arbitrage	6
Methods of Sale	6
A. Competitive.....	6
B. Negotiated	7
C. Private Placement	7
Selection of Underwriting Team (Negotiated Transaction).....	7
D. Senior Manager.....	7

E. Co-Manager.....	7
F. Selling Groups	8
G. Underwriter’s Counsel	8
H. Underwriter’s Discount	8
I. Evaluation of Underwriter Performance.....	8
Credit Quality	8
A. Security of Bonds	9
1. Debt Service Reserve Fund	9
2. Liquidity Facility	9
3. Interest Rate Reserve Fund	9
B. Intercept of State Appropriations	9
Credit Enhancements.....	10
A. Bond Insurance	10
B. Letters of Credit	10
C. Liquidity.....	10
D. Use of Structured Products.....	10
Risk Assessment	10
A. Change in Public/Private Use	11
B. Default Risk	11
C. Liquidity Risk	11
D. Interest Rate Risk	11
E. Rollover Risk.....	11
F. Market Risk	11
Transparency.....	11
Professional Services.....	12
A. Issuer’s Counsel.....	12
B. Bond Counsel	12
C. Financial Advisor	12
D. Trustee/Refunding Trustee	12
E. Dealer	12
F. Issuing and Paying Agent	12
G. Credit/Liquidity Provider.....	12

Potential Conflicts of Interest	13
Debt Administration.....	13
A. Planning for Sale	13
B. Post-Sale.....	13
C. Continuing Administration.....	14
Federal Regulatory Compliance and Continuing Disclosure	14
A. Arbitrage	14
B. Investment of Proceeds	14
C. Disclosure.....	15
D. Generally Accepted Accounting Principles (GAAP).....	15
Review of the Policy	16
Adoption of the Policy.....	17

Debt Management Policy

Introduction

The Tennessee State School Bond Authority (the "Authority"), created in 1965 under the Tennessee State School Bond Authority Act, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated ("TCA"), is a corporate governmental agency and instrumentality of the State of Tennessee whose purpose is to finance revenue generating capital projects for public institutions of higher education located in Tennessee ("Higher Education Institutions") by issuing bonds and notes of the Authority and to finance projects approved pursuant to the Qualified Zone Academy Bond Program ("QZAB") and Qualified School Construction Bond Program ("QSCB") (both federal government programs for local education agencies).

The Authority has financed a variety of revenue generating higher education projects including dormitories, athletic facilities, parking facilities and major equipment purchases. These projects stand in contrast to non-revenue generating capital projects for basic academic needs such as classrooms and libraries that are funded from the proceeds of the State's general obligation bonds.

QZAB and QSCB projects include construction of new schools, renovation, and rehabilitation of existing schools, as well as purchase of land and equipment for use in qualified projects. Federal guidelines allow for QZAB proceeds to be used to fund teacher training. However, under Tennessee Constitution Article II, Section 24, no debt will be issued to fund current operating expenses (including internal employee labor) unless such debt is retired or repaid within the fiscal year of issuance. Thus, the Authority does not use QZAB proceeds to fund teacher training.

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

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Purpose

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

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

The QZAB and QSCB programs are limited to the amounts allocated by the federal government. The Authority adopted the Qualified Zone Academy Bonds General Bond Resolution on September 9, 1999 and the Qualified School Construction Bonds General Bond Resolution on November 5, 2009 authorizing the issuance of QZABs or QSCBs thereunder from time to time pursuant to Supplemental Resolutions. At this time the Authority does not anticipate further issuance of debt for these programs due to economic and financial conditions and constraints.

This policy applies to the QZAB and QSCB programs for purposes of Debt Maintenance and Federal Regulatory Compliance and Continuing Disclosure.

Goals and Objectives

The Authority is establishing this debt policy as a tool to ensure that financial resources are adequate to meet the Authority's long-term debt program and financial planning. In addition, this Debt Management Policy (the "Policy") helps to ensure that financings undertaken by the Authority satisfy certain clear objective standards designed to protect the Authority's financial resources and to meet its long-term capital needs.

A. The goals of this Policy

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

B. The objectives of this Policy

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

Debt Management

A. Purpose and Use of Debt Issuance

Debt is to be issued pursuant to the Act, as amended, and the Higher Educational Facilities Second Program General Bond Resolution (adopted by the Authority on April 27, 1998 authorizing the issuance of Higher Educational Facilities Second Program Bonds from time to time by Supplemental Resolutions).

- Debt may be used to finance capital projects identified in the Financing Agreements between the Authority and (i) the Tennessee Board of Regents of the State University and Community College System ("TBR") and (ii) the Board of Trustees of the University of Tennessee ("UT").
- Debt may be used to finance project costs which include all direct capital costs and indirect capital costs of projects, including but not limited to costs of construction and acquisition,

costs of issuance of debt, funded interest on debt, and amounts to fund or replenish reserves, if and to the extent approved by the Authority. In compliance with Article II, Section 24 of the Tennessee Constitution, no budgeted current operational expenditures (including internal employee labor) shall be reimbursed with debt proceeds unless such debt is retired/repaid within the fiscal year of issuance.

- Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs as authorized by the Authority.
- Bonds may be issued to refinance outstanding debt.

B. Debt Capacity Assessment

- The debt capacity of the Authority is partially reliant on the debt capacity of the Higher Education Institutions. Due to this reliance, this Policy requires the assessment of the debt capacity the Higher Education Institutions on a project-by-project basis as each project is presented for approval. Debt capacity of each project is based on debt service coverage, which measures the actual margin of protection for annual debt service payments from the annual pledged revenue. Pledged revenue plus the pledge of legislative appropriations must meet a two times coverage test for a project to be approved for debt funding.
- Bond anticipation notes are limited to the amount stated in the related Resolution and/or Credit Agreement.

C. Federal Tax Status

- **Tax-Exempt Debt** – The Authority will use its best efforts to maximize the amount of debt sold as tax-exempt based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints.
- **Taxable Debt** – The Authority will sell taxable debt when necessary to finance projects not eligible to be financed with tax-exempt debt.

D. Legal Limitations on the Use of Debt

- Pursuant to Section 47-3-1207(d)(4) of the TCA, limitations on the purpose to which the proceeds of sale of bonds or notes may be applied are contained in the resolution or resolutions authorizing the bonds or notes.
- No debt may be issued for a period longer than the useful life of the capital project it is funding.

Types of Debt

Pursuant to Section 49-3-1207 of the TCA, the Authority is authorized from time to time to issue its negotiable bonds and notes. These include:

A. Bonds

The Authority may issue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. The bonds will be special obligations of the Authority. These bonds may include but not limited to:

- **Fixed Interest Rate Bonds.** Bonds that have an interest rate that remains constant throughout the life of the bond.
 - Serial Bonds
 - Term Bonds
- **Variable Interest Rate Bonds.** Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included the corresponding Supplemental Resolution.
- **Capital Appreciation Bonds.** Bonds as to which interest is payable only at maturity or prior redemption of such Bonds or which bear a stated interest rate of zero. The corresponding Supplemental Resolution for the bonds will define the manner in which the period during which principal and interest shall be deemed to accrue, and the valuation dates for the bonds and the accreted value on the valuation date.

B. Short-Term Debt

The Authority may issue short-term debt, from time to time as needed to fund projects for the Higher Educational Institutions during their construction phase. Such debt shall be authorized by resolution of the Authority. 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 their construction phase

~~The short-term debt may be structured as Bond Anticipation Notes ("BANs") or short-term obligations that will be repaid by proceeds of a subsequent long-term bond issue or fees and charges from the borrowers. Typically, short-term debt is issued during the construction period to take advantage of the lower short-term interest rates. Short-term debt may include:~~

- **Commercial Paper ("CP")** – CP is a form of BANs that has a maturity up to 270 days may be rolled to a subsequent maturity date and is commonly used to finance a capital project during construction. It can be issued incrementally as funds are needed.
- **Fixed Rate Notes** – Notes issued for a period of ~~one year or less~~ at a fixed interest rate.
- **Variable Rate Notes** – Notes issued for a period of ~~one year or less, which~~ bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.

Deleted: <#>Refunding Bonds. Bonds refunding the whole or a part of a Series of Bonds delivered on original issuance.¶

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- **Revolving Credit Facility** – A form of BANs involving the extension of a line of credit from a bank. The bank agrees that the revolving credit facility can be drawn upon incrementally as funds are needed. The draws upon the line of credit may bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing credit agreement.

Debt Management Structure

The Authority shall establish all terms and conditions relating to the issuance of bonds and will invest all bond proceeds pursuant to the terms of the Authority's Second General Bond Resolution and the State's investment policy. Unless otherwise authorized by the Authority, the following shall serve as the Policy for determining structure:

A. Term

All capital projects financed through the issuance of debt will be financed for a period not to exceed the useful life of the projects, and in consideration of the ability of the borrower to absorb the additional debt service expense within the debt affordability guidelines, but in no event will the term of any bonds exceed thirty (30) years.

B. Capitalized Interest

From time to time, certain financings may require the use of capitalized interest from the issuance date until the borrower has beneficial use or occupancy of the financed project. Interest may be financed (capitalized) through a period permitted by federal law and the Authority's Second Program General Bond Resolution if it is determined that doing so is beneficial to the financing by the Authority.

C. Debt Service

Debt issuance shall be planned to achieve relatively net level debt service. The Authority shall avoid the use of bullet or balloon maturities, absent sinking fund requirements, except in those instances where these maturities serve to make existing overall debt service level or to match a specific income stream.

No debt shall be structured with deferred repayment of principal unless such structure is specifically approved by unanimous vote of the members of the Authority.

D. Call Provisions

In general, the Authority's securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. Call Features should be structured to provide the maximum flexibility relative to cost. The Authority will avoid the sale of long-term non-callable bonds absent careful evaluation by the Authority with respect to the value of the call option.

E. Original Issuance Discount/Premium

Bonds sold with original issuance discount/premium will be permitted with the approval of the Authority.

Refunding Outstanding Debt

The Authority may refinance outstanding bonds by issuing new bonds. Authority staff with assistance from the Authority's financial advisor ("Financial Advisor") shall have the responsibility to analyze outstanding bond issues for refunding opportunities, whether for economic, tax-status, or project reasons. Consideration shall be given to anticipated costs and administrative implementation and management.

A. Refunding Proposals

Refunding opportunities shall be reported to the Authority when:

- The sale of refunding bonds produces an aggregate present value savings of at least 4% of the par value of the bonds to be refunded; or
- The refunding of bonds creates additional debt capacity and produces an aggregate present value savings of at least 3% of the par value of the bonds to be refunded; or
- The refunding of the bonds is necessary due to a change in the use of a project that would require a change to the tax status of the Bonds; or
- The project is sold or no longer in service while still in its amortization period; or
- Restrictive Covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.

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

B. Term of Refunding Issues

The Authority will refund bonds within the term of the originally issued debt allowing for an extension within the fiscal year of the original term. No backloading of debt will be permitted.

C. Bond Structuring

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

D. Escrow Structuring

The Authority shall structure refunding escrows using permitted securities deemed to be legally permitted under the circumstances. The Authority shall take all actions as may be necessary or appropriate to effectuate the transactions contemplated by the Refunding Trust Agreements, including but not limited to the purchase of State and Local Government Obligations (SLGS). Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Authority from its own account.

E. Arbitrage

The Authority shall take all reasonable steps to optimize escrows and to avoid negative arbitrage in its refunding subject to section 49-3-1205(6) of the TCA. Any positive arbitrage will be rebated as necessary according to Federal guidelines (see also "Federal Regulatory Compliance and Continuing Disclosure - A. Arbitrage").

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Methods of Sale

A. Competitive

In a competitive sale, the Authority's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. The competitive sale is the Authority's preferred method of sale.

B. Negotiated

While the Authority prefers the use of a competitive process, the Authority recognizes some securities are best sold through negotiation. ~~In a negotiated sale, an underwriting team will be chosen and the underwriter's fees negotiated prior to the sale (see "Selection of Underwriting Team (Negotiated Transaction)").~~ In its consideration of a negotiated sale, the Authority shall assess the following circumstances:

- A structure which may require a stronger pre-marketing effort,
- Size of the issue which may limit the number of potential bidders,
- Market volatility is such that the Authority would be better served by flexibility in timing a sale,
- Credit strength,
- ~~If legal or disclosure issues make it advisable in marketing the bonds, and~~
- Tax status of bond.

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C. Private Placement

~~From time to time, the Authority may have a need to consider privately placing its debt where the size is too small or the structure is too complicated for public debt issuance, or the number of market purchasers is limited, and/or will result in a cost savings to the Authority relative to other methods of debt issuance.~~

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Selection of Underwriting Team (Negotiated Transaction)

If there is an underwriter, the Authority shall require the underwriter to clearly identify itself in writing, whether in a response to a request for proposals or in promotional materials provided to the Authority or otherwise, as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Authority with respect to that issue. The underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that it has financial and other interests that differ from those of the Authority. 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 Authority or its designated official in advance of the pricing of the debt.

D. Senior Manager, _____

The Authority with assistance from its financial advisor shall select the senior manager 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 Authority;
- Willingness to risk capital and demonstration of such risk;
- Quality and experience of personnel assigned to the Authority's engagement;
- Financing and marketing ideas presented; and
- Underwriting fees.

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E. Co-Manager, _____

Co-managers will be selected on the same basis as the senior manager. The number of co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure

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maximum distribution of the Authority's bonds. ~~The Secretary or Assistant Secretary to the Authority will, at his or her discretion, affirmatively determine the designation policy for each bond issue.~~

F. Selling Groups

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

G. Underwriter's Counsel

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

H. Underwriter's Discount

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

I. Evaluation of Underwriter Performance

Authority staff with assistance of the Financial Advisor will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' 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 credits.

Following each sale, Authority staff shall provide a report to the Authority on the results of the sale.

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Credit Quality

The Authority's debt management activities will be conducted to receive the highest credit ratings possible, consistent with the Authority's financing objectives. ~~The Office of the Comptroller of the Treasury through the OSLF~~ will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the Authority's debt. The OSLF will schedule rating agency calls and/or visits prior to the issuance of Tennessee State School Bond Authority debt.

The OSLF will provide the rating agencies with periodic updates of the general financial condition of the Authority. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The Authority, together with the Financial Advisor, shall prepare presentations to the rating agencies to assist credit analysts in making an informed decision.

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

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

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A. Security of Bonds

1. Debt Service Reserve Fund

The Authority's Second Program General Bond Resolution provides that a Debt Service Reserve Fund shall be established for each bond that is issued

- **Cash Funded Debt Service Reserve** - a fund in which moneys are placed in reserve to be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund is funded with bond proceeds at the time of issuances. The balance in the debt service reserve fund will be used to pay the final maturity of that bond. It is the Authority's current practice to establish this fund with no current funding (funded at zero dollars).
- **Reserve Fund Credit Facility** - In lieu of a cash funded Debt Service Reserve, the Authority has the option to use one of the following reserve fund credit facilities; provided, however, that at the time of acceptance by the Authority, the provider's long-term obligations of any nature or claims paying ability are rated, by each Rating Agency then rating any Outstanding Bonds, no lower than the same Rating Category (for this purpose, taking into account refinements and gradations) as the Bonds are then rated by such Rating Agency:
 - Letter of Credit;
 - Debt service reserve insurance policy; or
 - any other similar financial arrangement as determined by Supplemental Resolution, and which is used to fund all or a portion of the Debt Service Reserve Requirement

2. Liquidity Facility

In the event the Authority shall utilize CP, the Authority may set up a liquidity facility to provide liquidity to securities that have been tendered. The liquidity facility may be in the form of a letter of credit, advance agreement or other arrangement that may provide liquidity.

3. Interest Rate Reserve Fund

The Authority may establish an interest reserve fund for bond anticipation notes issued for each project. The interest reserve fund shall provide security for interest due on bond anticipation notes as such interest matures between billings. The borrowers shall be charged on a monthly basis based on the amount borrowed. When the short-term debt for a project is either repaid or converted into bonds or other long-term debt, the amount invested in the reserve fund shall be credited back to the borrower.

B. Intercept of State Appropriations

Section 4.05 of the Authority's Second Program Financing Agreements provides the Authority the ability, in the event the Board of Trustees of the University of Tennessee or the Tennessee Board of Regents has failed to pay the annual financing charges or administrative fees due, to intercept amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the Institution to cover the amount due and payable.

Credit Enhancements

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

A. Bond Insurance

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

B. Letters of Credit

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

C. Liquidity

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

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

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

D. Use of Structured Products

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

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Risk Assessment

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

A. Change in Public/Private Use

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

B. Default Risk

The risk that debt service payments due from the borrowers are not all received by the due date.

C. Liquidity Risk

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

D. Interest Rate Risk

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

E. Rollover Risk

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

F. Market Risk

The risk in the event of a failed remarketing of short-term debt, the Liquidity Provider fails.

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Transparency

The Authority shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. Additionally, the Authority 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 of the U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12. The Authority intends to maintain transparency by:

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- Posting the Official Statement of a bond sale to the Authority's website within two weeks of the closing of such sale;
- Preparing and filing with OSLE a copy of the costs related to the issuance of a bond and other information required by Section 9-21-151 of the TCA, within 45 days of the closing of such sale and presenting the original of such document to the Authority at its next meeting (see also "Debt Administration - B. Post Sale"); and
- Electronically submitting through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") website the information necessary to satisfy the Authority's continuing disclosure requirements in a timely manner (see also "Federal Regulatory Compliance and Continuing Disclosure").

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Professional Services

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

A. Issuer's Counsel

The Authority will enter into an engagement letter agreement with each lawyer or law firm representing the Authority 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 which serves as counsel to the Authority ~~or of the Office of General Counsel, Office of the Comptroller of the Treasury, which serves as counsel to the OSLF regarding Board matters.~~

B. Bond Counsel

Bond Counsel shall be engaged through the OSLF and serves and assists the Authority on all its debt issues under a written agreement.

C. Financial Advisor

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

D. Trustee/Refunding Trustee

The Trustee is appointed ~~under the General Bond Resolution~~ of the Authority. The Trustee will be a bank, trust company or national banking association ~~that provides~~ Paying Agent and Registrar services. ~~The Trustee will also serve as the Refunding Trustee for the Authority's refunded bonds as appointed under the General Bond Resolution.~~

E. Dealer

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

F. Issuing and Paying Agent

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

G. Credit/Liquidity Provider

~~The Authority shall enter into a Credit/Liquidity Agreement with an appointed provider if deemed necessary or advisable for the CP.~~ The provider shall be a bank, lending institution ~~or the Tennessee Consolidated Retirement System ("TCRS")~~ that extends credit to the Authority 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.

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Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the Authority shall be required to disclose to the Authority 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 such information that is reasonably sufficient to allow the Authority to appreciate the significance of the relationships.

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

Debt Administration

A. Planning for Sale

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

B. Post-Sale

- The Director (~~with the assistance of staff in the OSLF~~), Bond Counsel, and Financial Advisor, along with other members of the financing team, will prepare an Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.
- The Financial Advisor will provide a closing memorandum with written instructions on transfer and flow of funds;
- The Director will present a post-sale report to the members of the Authority describing the transaction and setting forth all the costs associated with the transaction.
- ~~Within 45 days from closing, the Director will prepare a Form CT-0253 - "Report on Debt Obligation", outlining costs related to the issuance and other information set forth in Section 9-21-151 of the TCA, and also present at the next meeting of the Authority and file a copy with the OSLF.~~
- The Director will establish guidelines and procedures for tracking the flow of all bond proceeds, as defined by the Internal Revenue Code, over the life of bonds and reporting to

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the Internal Revenue Service (the "IRS") all arbitrage earnings associated with the financing and any tax liability that may be owed to the Service.

- The Post-Issuance Compliance ("PIC") team will meet annually to review matters related to compliance and complete the PIC Checklist.
- ~~As a part of the PIC procedures, the Director (with the assistance of staff in the OSLE) will, no less than annually, request confirmation from the borrowers that there has been no change in use of tax-exempt financed facilities.~~

C. Continuing Administration

- Authority staff will prepare billings in a timely manner to send to the borrowers to ensure payment in a timely manner.
- Authority staff will send moneys collected from borrowers for payment of debt service to either the Depository Trust Company ("DTC") or the associated Trustee/Paying Agent to pay the bondholders the debt service due, or in the case of term bonds, place the funds in a sinking fund until the bond matures.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

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

B. Investment of Proceeds

Any proceeds or other funds available for investment by the Authority ~~must be invested per Section 49-3-1205(6) of the TCA, subject to any restrictions required pursuant to the next sentence or pursuant to any applicable bond issuance authorization. Compliance with Federal tax code arbitrage requirements relating to invested tax-exempt bond funds will be maintained.~~

~~Proceeds used to refinance outstanding long-term debt shall be placed in an irrevocable refunding trust fund with the Refunding Trustee. The investments (i) shall not include mutual funds or unit investment trusts holding such obligations, (ii) are rated not lower than the second highest rating category of both Moody's Investors Service, Inc. and Standard & Poor's Global rating services and (iii) shall mature and bear interest at such times and such amounts as will be sufficient, together with other moneys to pay the remaining defeasance requirements of the bonds to be redeemed.~~

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C. Disclosure

The Authority will disclose on EMMA the State's and the Authority's audited Comprehensive Annual Financial Report as well as certain financial information and operating data required by the continuing disclosure undertakings for the outstanding bonds no later than January 31st of each year or February 25th for the Qualified School Construction Bond (QSCB) Program. The Authority will provide timely notice of any failure to provide required annual financial information by January 31 or February 25th for the QSCB Program. The Authority, with respect to borrowers under the QSCB Program (the "QSCB Borrowers"), will provide by no later than one year after the end of each respective fiscal year:

- the updated version of the state-shared taxes contained in the Official Statement with respect to the Authority and the QSCB Borrowers
- Audited Financial Statements of the QSCB Borrowers, if available, or the Unaudited Financial Statements of the QSCB Borrowers

The Authority will also, in accordance with the continuing disclosure undertakings, disclose on EMMA within ten business days after the occurrence of the following events relating to the bonds to which the continuing disclosure undertakings apply:

- Principal and interest payment delinquencies
- Nonpayment-related defaults, if material
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers or their failure to perform
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices 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 involving the Authority or sale of all or substantially all of the assets of the Authority, 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

D. Generally Accepted Accounting Principles (GAAP)

The Board will comply with the standard accounting practices adopted by the Governmental Accounting Standards Board when applicable.

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Review of the Policy

The debt policy guidelines outlined herein are intended to provide direction regarding the future use and execution of debt. The Authority maintains the right to modify these guidelines in a manner similar to the original adoption of the Policy.

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

Adoption of the Policy

1. A public hearing on the Policy was held on the following date: November 14, 2011.
2. The Board adopted this Policy on December 8, 2011, effective December 8, 2011.
3. The Board amended this policy on February 4, 2013, effective February 4, 2013.
4. The Board amended this policy on March 10, 2016, effective March 10, 2016.
5. The Board amended this policy on (June 9, 2016, effective June 9, 2016.)

Secretary
Tennessee State School Bond Authority

TENNESSEE STATE SCHOOL BOND AUTHORITY



DEBT MANAGEMENT POLICY

Prepared by:
Office of State and Local Finance

Table of Contents

Introduction	1
Purpose	1
Goals and Objectives	2
A. The goals of this Policy	2
B. The objectives of this Policy	2
Debt Management	2
A. Purpose and Use of Debt Issuance	2
B. Debt Capacity Assessment	3
C. Federal Tax Status	3
D. Legal Limitations on the Use of Debt	3
Types of Debt	3
A. Bonds	3
B. Short-Term Debt	4
Debt Management Structure	4
A. Term	4
B. Capitalized Interest	5
C. Debt Service	5
D. Call Provisions	5
E. Original Issuance Discount/Premium	5
Refunding Outstanding Debt	5
A. Refunding Proposals	5
B. Term of Refunding Issues	6
C. Bond Structuring	6
D. Escrow Structuring	6
E. Arbitrage	6
Methods of Sale	6
A. Competitive	6
B. Negotiated	6
C. Private Placement	6
Selection of Underwriting Team (Negotiated Transaction)	7
D. Senior Manager	7

E. Co-Manager.....	7
F. Selling Groups.....	7
G. Underwriter’s Counsel	7
H. Underwriter’s Discount	7
I. Evaluation of Underwriter Performance.....	8
Credit Quality	8
A. Security of Bonds.....	8
1. Debt Service Reserve Fund.....	8
2. Liquidity Facility.....	9
3. Interest Rate Reserve Fund	9
B. Intercept of State Appropriations	9
Credit Enhancements	9
A. Bond Insurance.....	9
B. Letters of Credit.....	9
C. Liquidity.....	10
D. Use of Structured Products	10
Risk Assessment	10
A. Change in Public/Private Use	10
B. Default Risk	10
C. Liquidity Risk.....	10
D. Interest Rate Risk	10
E. Rollover Risk.....	10
F. Market Risk.....	10
Transparency.....	11
Professional Services.....	11
A. Issuer’s Counsel.....	11
B. Bond Counsel.....	11
C. Financial Advisor	11
D. Trustee/Refunding Trustee	11
E. Dealer	12
F. Issuing and Paying Agent.....	12
G. Credit/Liquidity Provider	12

Potential Conflicts of Interest	12
Debt Administration.....	12
A. Planning for Sale.....	12
B. Post-Sale.....	13
C. Continuing Administration	13
Federal Regulatory Compliance and Continuing Disclosure	13
A. Arbitrage.....	13
B. Investment of Proceeds	14
C. Disclosure	14
D. Generally Accepted Accounting Principles (GAAP)	15
Review of the Policy	15
Adoption of the Policy.....	16

Debt Management Policy

Introduction

The Tennessee State School Bond Authority (the "Authority"), created in 1965 under the Tennessee State School Bond Authority Act, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated ("TCA"), is a corporate governmental agency and instrumentality of the State of Tennessee whose purpose is to finance revenue generating capital projects for public institutions of higher education located in Tennessee ("Higher Education Institutions") by issuing bonds and notes of the Authority and to finance projects approved pursuant to the Qualified Zone Academy Bond Program ("QZAB") and Qualified School Construction Bond Program ("QSCB") (both federal government programs for local education agencies).

The Authority has financed a variety of revenue generating higher education projects including dormitories, athletic facilities, parking facilities and major equipment purchases. These projects stand in contrast to non-revenue generating capital projects for basic academic needs such as classrooms and libraries that are funded from the proceeds of the State's general obligation bonds.

QZAB and QSCB projects include construction of new schools, renovation, and rehabilitation of existing schools, as well as purchase of land and equipment for use in qualified projects. Federal guidelines allow for QZAB proceeds to be used to fund teacher training. However, under Tennessee Constitution Article II, Section 24, no debt will be issued to fund current operating expenses (including internal employee labor) unless such debt is retired or repaid within the fiscal year of issuance. Thus, the Authority does not use QZAB proceeds to fund teacher training.

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

Purpose

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

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

The QZAB and QSCB programs are limited to the amounts allocated by the federal government. The Authority adopted the Qualified Zone Academy Bonds General Bond Resolution on September 9, 1999 and the Qualified School Construction Bonds General Bond Resolution on November 5, 2009 authorizing the issuance of QZABs or QSCBs thereunder from time to time pursuant to Supplemental Resolutions. At this time the Authority does not anticipate further issuance of debt for these programs due to economic and financial conditions and constraints.

This policy applies to the QZAB and QSCB programs for purposes of Debt Maintenance and Federal Regulatory Compliance and Continuing Disclosure.

Goals and Objectives

The Authority is establishing this debt policy as a tool to ensure that financial resources are adequate to meet the Authority's long-term debt program and financial planning. In addition, this Debt Management Policy (the "Policy") helps to ensure that financings undertaken by the Authority satisfy certain clear objective standards designed to protect the Authority's financial resources and to meet its long-term capital needs.

A. The goals of this Policy

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

B. The objectives of this Policy

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

Debt Management

A. Purpose and Use of Debt Issuance

Debt is to be issued pursuant to the Act, as amended, and the Higher Educational Facilities Second Program General Bond Resolution (adopted by the Authority on April 27, 1998 authorizing the issuance of Higher Educational Facilities Second Program Bonds from time to time by Supplemental Resolutions).

- Debt may be used to finance capital projects identified in the Financing Agreements between the Authority and (i) the Tennessee Board of Regents of the State University and Community College System ("TBR") and (ii) the Board of Trustees of the University of Tennessee ("UT").
- Debt may be used to finance project costs which include all direct capital costs and indirect capital costs of projects, including but not limited to costs of construction and acquisition,

costs of issuance of debt, funded interest on debt, and amounts to fund or replenish reserves, if and to the extent approved by the Authority. In compliance with Article II, Section 24 of the Tennessee Constitution, no budgeted current operational expenditures (including internal employee labor) shall be reimbursed with debt proceeds unless such debt is retired/repaid within the fiscal year of issuance.

- Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs as authorized by the Authority.
- Bonds may be issued to refinance outstanding debt.

B. Debt Capacity Assessment

- The debt capacity of the Authority is partially reliant on the debt capacity of the Higher Education Institutions. Due to this reliance, this Policy requires the assessment of the debt capacity the Higher Education Institutions on a project-by-project basis as each project is presented for approval. Debt capacity of each project is based on debt service coverage, which measures the actual margin of protection for annual debt service payments from the annual pledged revenue. Pledged revenue plus the pledge of legislative appropriations must meet a two times coverage test for a project to be approved for debt funding.
- Bond anticipation notes are limited to the amount stated in the related Resolution and/or Credit Agreement.

C. Federal Tax Status

- **Tax-Exempt Debt** – The Authority will use its best efforts to maximize the amount of debt sold as tax-exempt based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints.
- **Taxable Debt** – The Authority will sell taxable debt when necessary to finance projects not eligible to be financed with tax-exempt debt.

D. Legal Limitations on the Use of Debt

- Pursuant to Section 47-3-1207(d)(4) of the TCA, limitations on the purpose to which the proceeds of sale of bonds or notes may be applied are contained in the resolution or resolutions authorizing the bonds or notes.
- No debt may be issued for a period longer than the useful life of the capital project it is funding.

Types of Debt

Pursuant to Section 49-3-1207 of the TCA, the Authority is authorized from time to time to issue its negotiable bonds and notes. These include:

A. Bonds

The Authority may issue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. The bonds will be special obligations of the Authority. These bonds may include but not limited to:

- **Fixed Interest Rate Bonds.** Bonds that have an interest rate that remains constant throughout the life of the bond.
 - Serial Bonds
 - Term Bonds

- **Variable Interest Rate Bonds.** Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included the corresponding Supplemental Resolution.
- **Capital Appreciation Bonds.** Bonds as to which interest is payable only at maturity or prior redemption of such Bonds or which bear a stated interest rate of zero. The corresponding Supplemental Resolution for the bonds will define the manner in which the period during which principal and interest shall be deemed to accrue, and the valuation dates for the bonds and the accreted value on the valuation date.

B. Short-Term Debt

The Authority may issue short-term debt, from time to time as needed to fund projects for the Higher Educational Institutions during their construction phase. Such debt shall be authorized by resolution of the Authority. 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 their construction phase

The short-term debt may be structured as Bond Anticipation Notes (“BANs”) or short-term obligations that will be repaid by proceeds of a subsequent long-term bond issue or fees and charges from the borrowers. Typically, short-term debt is issued during the construction period to take advantage of the lower short-term interest rates. Short-term debt may include:

- **Commercial Paper (“CP”)** – CP is a form of BANs that has a maturity up to 270 days may be rolled to a subsequent maturity date and is commonly used to finance a capital project during construction. It can be issued incrementally as funds are needed.
- **Fixed Rate Notes** – Notes issued for a period of one year or less at a fixed interest rate.
- **Variable Rate Notes** – Notes issued for a period of one year or less, which bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.
- **Revolving Credit Facility** – A form of BANs involving the extension of a line of credit from a bank. The bank agrees that the revolving credit facility can be drawn upon incrementally as funds are needed. The draws upon the line of credit may bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing credit agreement.

Debt Management Structure

The Authority shall establish all terms and conditions relating to the issuance of bonds and will invest all bond proceeds pursuant to the terms of the Authority’s Second General Bond Resolution and the State’s investment policy. Unless otherwise authorized by the Authority, the following shall serve as the Policy for determining structure:

A. Term

All capital projects financed through the issuance of debt will be financed for a period not to exceed the useful life of the projects, and in consideration of the ability of the borrower to absorb the additional debt service expense within the debt affordability guidelines, but in no event will the term of any bonds exceed thirty (30) years.

B. Capitalized Interest

From time to time, certain financings may require the use of capitalized interest from the issuance date until the borrower has beneficial use or occupancy of the financed project. Interest may be financed (capitalized) through a period permitted by federal law and the Authority's Second Program General Bond Resolution if it is determined that doing so is beneficial to the financing by the Authority.

C. Debt Service

Debt issuance shall be planned to achieve relatively net level debt service. The Authority shall avoid the use of bullet or balloon maturities, absent sinking fund requirements, except in those instances where these maturities serve to make existing overall debt service level or to match a specific income stream.

No debt shall be structured with deferred repayment of principal unless such structure is specifically approved by unanimous vote of the members of the Authority.

D. Call Provisions

In general, the Authority's securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. Call Features should be structured to provide the maximum flexibility relative to cost. The Authority will avoid the sale of long-term non-callable bonds absent careful evaluation by the Authority with respect to the value of the call option.

E. Original Issuance Discount/Premium

Bonds sold with original issuance discount/premium will be permitted with the approval of the Authority.

Refunding Outstanding Debt

The Authority may refinance outstanding bonds by issuing new bonds. Authority staff with assistance from the Authority's financial advisor ("Financial Advisor") shall have the responsibility to analyze outstanding bond issues for refunding opportunities, whether for economic, tax-status, or project reasons. Consideration shall be given to anticipated costs and administrative implementation and management.

A. Refunding Proposals

Refunding opportunities shall be reported to the Authority when:

- The sale of refunding bonds produces an aggregate present value savings of at least 4% of the par value of the bonds to be refunded; or
- The refunding of bonds creates additional debt capacity and produces an aggregate present value savings of at least 3% of the par value of the bonds to be refunded; or
- The refunding of the bonds is necessary due to a change in the use of a project that would require a change to the tax status of the Bonds; or
- The project is sold or no longer in service while still in its amortization period; or
- Restrictive Covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.

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

B. Term of Refunding Issues

The Authority will refund bonds within the term of the originally issued debt allowing for an extension within the fiscal year of the original term. No backloading of debt will be permitted.

C. Bond Structuring

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

D. Escrow Structuring

The Authority shall structure refunding escrows using permitted securities deemed to be legally permitted under the circumstances. The Authority shall take all actions as may be necessary or appropriate to effectuate the transactions contemplated by the Refunding Trust Agreements, including but not limited to the purchase of State and Local Government Obligations (SLGS). Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Authority from its own account.

E. Arbitrage

The Authority shall take all reasonable steps to optimize escrows and to avoid negative arbitrage in its refunding subject to section 49-3-1205(6) of the TCA. Any positive arbitrage will be rebated as necessary according to Federal guidelines (see also "Federal Regulatory Compliance and Continuing Disclosure – A. Arbitrage").

Methods of Sale

A. Competitive

In a competitive sale, the Authority's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. The competitive sale is the Authority's preferred method of sale.

B. Negotiated

While the Authority prefers the use of a competitive process, the Authority recognizes some securities are best sold through negotiation. In a negotiated sale, an underwriting team will be chosen and the underwriter's fees negotiated prior to the sale (see "Selection of Underwriting Team (Negotiated Transaction)"). In its consideration of a negotiated sale, the Authority shall assess the following circumstances:

- A structure which may require a stronger pre-marketing effort,
- Size of the issue which may limit the number of potential bidders,
- Market volatility is such that the Authority would be better served by flexibility in timing a sale,
- Credit strength,
- If legal or disclosure issues make it advisable in marketing the bonds, and
- Tax status of bond.

C. Private Placement

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

Selection of Underwriting Team (Negotiated Transaction)

If there is an underwriter, the Authority shall require the underwriter to clearly identify itself in writing, whether in a response to a request for proposals or in promotional materials provided to the Authority or otherwise, as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Authority with respect to that issue. The underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that it has financial and other interests that differ from those of the Authority. 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 Authority or its designated official in advance of the pricing of the debt.

D. Senior Manager

The Authority with assistance from its financial advisor shall select the senior manager 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 Authority;
- Willingness to risk capital and demonstration of such risk;
- Quality and experience of personnel assigned to the Authority's engagement;
- Financing and marketing ideas presented; and
- Underwriting fees.

E. Co-Manager

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

F. Selling Groups

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

G. Underwriter's Counsel

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

H. Underwriter's Discount

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

I. Evaluation of Underwriter Performance

Authority staff with assistance of the Financial Advisor will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' 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 credits.

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

Credit Quality

The Authority's debt management activities will be conducted to receive the highest credit ratings possible, consistent with the Authority's financing objectives. The Office of the Comptroller of the Treasury through the "OSLF" will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the Authority's debt. The OSLF will schedule rating agency calls and/or visits prior to the issuance of Tennessee State School Bond Authority debt.

The OSLF will provide the rating agencies with periodic updates of the general financial condition of the Authority. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The Authority, together with the Financial Advisor, shall prepare presentations to the rating agencies to assist credit analysts in making an informed decision.

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

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

A. Security of Bonds

1. Debt Service Reserve Fund

The Authority's Second Program General Bond Resolution provides that a Debt Service Reserve Fund shall be established for each bond that is issued

- **Cash Funded Debt Service Reserve** - a fund in which moneys are placed in reserve to be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund is funded with bond proceeds at the time of issuances. The balance in the debt service reserve fund will be used to pay the final maturity of that bond. It is the Authority's current practice to establish this fund with no current funding (funded at zero dollars).
- **Reserve Fund Credit Facility** - In lieu of a cash funded Debt Service Reserve, the Authority has the option to use one of the following reserve fund credit facilities; provided, however, that at the time of acceptance by the Authority, the provider's long-term obligations of any nature or claims paying ability are rated, by each Rating Agency then rating any Outstanding Bonds, no lower than the same Rating Category (for this purpose, taking into account refinements and gradations) as the Bonds are then rated by such Rating Agency:
 - Letter of Credit;
 - Debt service reserve insurance policy; or

- any other similar financial arrangement as determined by Supplemental Resolution, and which is used to fund all or a portion of the Debt Service Reserve Requirement

2. Liquidity Facility

In the event the Authority shall utilize CP, the Authority may set up a liquidity facility to provide liquidity to securities that have been tendered. The liquidity facility may be in the form of a letter of credit, advance agreement or other arrangement that may provide liquidity.

3. Interest Rate Reserve Fund

The Authority may establish an interest reserve fund for bond anticipation notes issued for each project. The interest reserve fund shall provide security for interest due on bond anticipation notes as such interest matures between billings. The borrowers shall be charged on a monthly basis based on the amount borrowed. When the short-term debt for a project is either repaid or converted into bonds or other long-term debt, the amount invested in the reserve fund shall be credited back to the borrower.

B. Intercept of State Appropriations

Section 4.05 of the Authority's Second Program Financing Agreements provides the Authority the ability, in the event the Board of Trustees of the University of Tennessee or the Tennessee Board of Regents has failed to pay the annual financing charges or administrative fees due, to intercept amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the Institution to cover the amount due and payable.

Credit Enhancements

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

A. Bond Insurance

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

B. Letters of Credit

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

C. Liquidity

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

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

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

D. Use of Structured Products

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

Risk Assessment

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

A. Change in Public/Private Use

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

B. Default Risk

The risk that debt service payments due from the borrowers are not all received by the due date.

C. Liquidity Risk

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

D. Interest Rate Risk

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

E. Rollover Risk

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

F. Market Risk

The risk in the event of a failed remarketing of short-term debt, the Liquidity Provider fails.

Transparency

The Authority shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. Additionally, the Authority 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 of the U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12,. The Authority intends to maintain transparency by:

- Posting the Official Statement of a bond sale to the Authority's website within two weeks of the closing of such sale;
- Preparing and filing with OSLF a copy of the costs related to the issuance of a bond and other information required by Section 9-21-151 of the TCA, within 45 days of the closing of such sale and presenting the original of such document to the Authority at its next meeting (see also "Debt Administration – B. Post Sale"); and
- Electronically submitting through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") website the information necessary to satisfy the Authority's continuing disclosure requirements in a timely manner (see also "Federal Regulatory Compliance and Continuing Disclosure").

Professional Services

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

A. Issuer's Counsel

The Authority will enter into an engagement letter agreement with each lawyer or law firm representing the Authority 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 which serves as counsel to the Authority or of the Office of General Counsel, Office of the Comptroller of the Treasury, which serves as counsel to the OSLF regarding Board matters.

B. Bond Counsel

Bond Counsel shall be engaged through the OSLF and serves and assists the Authority on all its debt issues under a written agreement.

C. Financial Advisor

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

D. Trustee/Refunding Trustee

The Trustee is appointed under the General Bond Resolution of the Authority. The Trustee will be a bank, trust company or national banking association that provides Paying Agent and Registrar services. The Trustee will also serve as the Refunding Trustee for the Authority's refunded bonds as appointed under the General Bond Resolution.

E. Dealer

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

F. Issuing and Paying Agent

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

G. Credit/Liquidity Provider

The Authority shall enter into a Credit/Liquidity Agreement with an appointed provider if deemed necessary or advisable for the CP. The provider shall be a bank, lending institution or the Tennessee Consolidated Retirement System ("TCRS") that extends credit to the Authority 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.

Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the Authority shall be required to disclose to the Authority 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 such information that is reasonably sufficient to allow the Authority to appreciate the significance of the relationships.

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

Debt Administration

A. Planning for Sale

- Prior to submitting a bond resolution for approval, the Director of OSLF (the "Director"), with the assistance of the Financial Advisor, will present to staff of the members of the Authority information concerning the purpose of the financing, the proposed structure of the financing, the source of payment proposed to be pledged to the financing, the proposed method of sale for the financing, all members of the proposed financing team, and an estimate of all the costs associated with the financing; and
- In addition, in the case of a proposed refunding, proposed use of credit enhancement, or proposed use of variable rate debt, the Director will present the rationale for using the proposed debt structure, an estimate of the expected savings associated with the transaction and a discussion of the potential risks associated with the proposed structure; and
- The Director (with the assistance of staff of OSLF), Bond Counsel, Financial Advisor, along with other members of the financing team will prepare a Preliminary Official Statement

describing the transaction and the security for the debt that is fully compliant with all legal requirements.

B. Post-Sale

- The Director (with the assistance of staff in the OSLF), Bond Counsel, and Financial Advisor, along with other members of the financing team, will prepare an Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.
- The Financial Advisor will provide a closing memorandum with written instructions on transfer and flow of funds;
- The Director will present a post-sale report to the members of the Authority describing the transaction and setting forth all the costs associated with the transaction.
- Within 45 days from closing, the Director will prepare a Form CT-0253 - "Report on Debt Obligation" outlining costs related to the issuance and other information set forth in Section 9-21-151 of the TCA, and also present at the next meeting of the Authority and file a copy with the OSLF.
- The Director will establish guidelines and procedures for tracking the flow of all bond proceeds, as defined by the Internal Revenue Code, over the life of bonds and reporting to the Internal Revenue Service (the "IRS") all arbitrage earnings associated with the financing and any tax liability that may be owed to the Service.
- The Post-Issuance Compliance ("PIC") team will meet annually to review matters related to compliance and complete the PIC Checklist.
- As a part of the PIC procedures, the Director (with the assistance of staff in the OSLF) will, no less than annually, request confirmation from the borrowers that there has been no change in use of tax-exempt financed facilities.

C. Continuing Administration

- Authority staff will prepare billings in a timely manner to send to the borrowers to ensure payment in a timely manner.
- Authority staff will send moneys collected from borrowers for payment of debt service to either the Depository Trust Company ("DTC") or the associated Trustee/Paying Agent to pay the bondholders the debt service due, or in the case of term bonds, place the funds in a sinking fund until the bond matures.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

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

B. Investment of Proceeds

Any proceeds or other funds available for investment by the Authority must be invested per Section 49-3-1205(6) of the TCA, subject to any restrictions required pursuant to the next sentence or pursuant to any applicable bond issuance authorization. Compliance with Federal tax code arbitrage requirements relating to invested tax-exempt bond funds will be maintained.

Proceeds used to refinance outstanding long-term debt shall be placed in an irrevocable refunding trust fund with the Refunding Trustee. The investments (i) shall not include mutual funds or unit investment trusts holding such obligations, (ii) are rated not lower than the second highest rating category of both Moody's Investors Service, Inc. and Standard & Poor's Global rating services and (iii) shall mature and bear interest at such times and such amounts as will be sufficient, together with other moneys to pay the remaining defeasance requirements of the bonds to be redeemed.

C. Disclosure

The Authority will disclose on EMMA the State's and the Authority's audited Comprehensive Annual Financial Report as well as certain financial information and operating data required by the continuing disclosure undertakings for the outstanding bonds no later than January 31st of each year or February 25th for the Qualified School Construction Bond (QSCB) Program. The Authority will provide timely notice of any failure to provide required annual financial information by January 31 or February 25th for the QSCB Program. The Authority, with respect to borrowers under the QSCB Program (the "QSCB Borrowers"), will provide by no later than one year after the end of each respective fiscal year:

- the updated version of the state-shared taxes contained in the Official Statement with respect to the Authority and the QSCB Borrowers
- Audited Financial Statements of the QSCB Borrowers, if available, or the Unaudited Financial Statements of the QSCB Borrowers

The Authority will also, in accordance with the continuing disclosure undertakings, disclose on EMMA within ten business days after the occurrence of the following events relating to the bonds to which the continuing disclosure undertakings apply:

- Principal and interest payment delinquencies
- Nonpayment-related defaults, if material
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers or their failure to perform
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices 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 bondholders, 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 involving the Authority or sale of all or substantially all of the assets of the Authority, 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

D. Generally Accepted Accounting Principles (GAAP)

The Board will comply with the standard accounting practices adopted by the Governmental Accounting Standards Board when applicable.

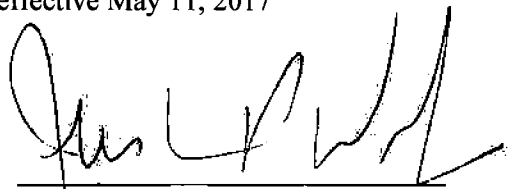
Review of the Policy

The debt policy guidelines outlined herein are intended to provide direction regarding the future use and execution of debt. The Authority maintains the right to modify these guidelines in a manner similar to the original adoption of the Policy.

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

Adoption of the Policy

1. A public hearing on the Policy was held on the following date: November 14, 2011.
2. The Board adopted this Policy on December 8, 2011, effective December 8, 2011.
3. The Board amended this policy on February 4, 2013, effective February 4, 2013.
4. The Board amended this policy on March 10, 2016, effective March 10, 2016.
5. The Board amended this policy on June 9, 2016, effective June 9, 2016.
6. The Board amended this policy on May 11, 2017, effective May 11, 2017



Secretary
Tennessee State School Bond Authority