

## TENNESSEE STATE SCHOOL BOND AUTHORITY

March 6, 2020

The Tennessee State School Bond Authority (“TSSBA”, or the “Authority”) met on Friday, March 6, 2020, at 11:55 a.m. in the Tennessee State Capitol, Ground Floor, Executive Conference Room, Nashville, Tennessee. The Honorable Justin Wilson, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable David Lillard, State Treasurer  
The Honorable Tre Hargett, Secretary of State  
Angela Scott, proxy for Commissioner Stuart McWhorter, Department of Finance and Administration  
Danny Gibbs, proxy for Dr. Flora Tydings, Chancellor, Tennessee Board of Regents

The following members were absent:

The Honorable Bill Lee, Governor  
Mr. Mark Paganelli, proxy for Randy Boyd, Interim President, University of Tennessee

Recognizing a physical quorum present, Mr. Wilson called the meeting to order and stated that the first item on the agenda was the approval of the minutes of the meeting held on December 13, 2019. Mr. Wilson stated that he had read the minutes, and everything appeared to be in order. Mr. Wilson asked if there were any comments or corrections to the minutes. Hearing none, Mr. Lillard moved approval of the minutes. Mr. Hargett seconded the motion. The motion was unanimously approved.

Mr. Wilson then stated that the next item on the agenda was consideration of a resolution to approve the borrowing of money by another method by the University of Memphis (the “University”). Mr. Wilson stated that the approval required from the Authority is to only approve the request to borrow. Mr. Wilson stated that the Authority would not be approving the project as that would be approved by the State Building Commission. Mr. Wilson asked Mr. David Burn, Senior Assistant Attorney General, to explain the request. Mr. Burn explained that pursuant to the Tennessee State School Bond Authority Act, the Authority is required to approve or disapprove actions with respect to the borrowing of money for any purpose by an institution under the jurisdiction of the Board of Regents, which includes the University of Memphis. Mr. Burn explained that the University had requested approval to enter into a transaction comprised of two (2) interrelated transactions that are to occur simultaneously on the project closing date. Memphis Tiger House, LLC, will purchase and transfer four parcels of land valued at Three Million Six Hundred Ninety-Three Thousand Dollars (\$3,693,000) to the University. Concurrent with the land transfer, the University of Memphis will execute a long-term ground lease of University property with Memphis Tiger House, LLC, for the design, construction, financing, operating and maintenance of a housing complex.

Mr. Burn explained that the transfer of the land from Memphis Tiger House, LLC, to the University constitutes prepaid rent for the long-term lease. Mr. Burn stated this is a complex transaction because it is a 50-year lease where the prepaid rent is real estate. If the prepaid rent were cash instead of property, the University could deposit the cash into an escrow account. Mr. Burn explained that one of the provisions of the lease agreement is that if Memphis Tiger House, LLC were to breach the lease at any time during its 50-year term, the University would be required to pay the unamortized portion of the amount of prepaid rent to Memphis Tiger House, LLC before the University could take back possession of its property. Although the amount of unamortized rent decreases over time, the concern is the ability of the University to potentially pay over Three Million Dollars (\$3,000,000) in a short period of time during the beginning stages of the lease.

Mr. Burn stated the University has the ability to borrow money from an amount set aside on its behalf in 2007 from the state’s commercial paper program to purchase properties under the University’s master plan that are adjacent to its campus. The original authorization of the funding was Seven Million Dollars (\$7,000,000) and the unutilized amount remaining is approximately Two Million Nine Hundred Thousand

Dollars (\$2,900,000). The University has pledged to restrict use of the unutilized remaining funds only for the purpose of paying unamortized prepaid rent to Memphis Tiger House, LLC, should that occasion arise, unless and until the amount of unamortized prepaid rent falls below the amount of unutilized remaining funds in which case the University may use any such surplus unutilized remaining funds for any other authorized purpose. With the restriction of the funds, Mr. Burn was stated that there was assurance that the University would not be extending itself beyond its ability to repay the unamortized prepaid rent. Mr. Burn stated that the key concern for the TSSBA in approval of the transaction is the liability, or debt the University was incurring, by entering into the long-term lease.

Mr. Wilson stated that to be sure everyone was clear, there is an outstanding general obligation authorization for the University of Memphis to borrow approximately Two Million Nine Hundred Thousand Dollars (\$2,900,000) that could be utilized at present time if necessary. Mr. Burn confirmed that was correct. Mr. Wilson then stated that the Authority needed to consider the approval of the University of Memphis to enter into the lease and that Ms. Donna Jewell, Legislative Audit Manager, was physically present at the meeting should anyone have questions about why the lease was considered to be debt. Mr. Wilson stated that this request was being presented to the Authority to ensure that the University's lease would not impair the credit of, nor the University's ability to meet its debt service obligations to, the TSSBA.

Mr. Wilson then recognized Mr. Raaj Kurapati, Executive Vice President and Chief Financial Officer, University of Memphis. Mr. Kurapati stated that Mr. Burn gave a very good summary of the transaction. Mr. Kurapati stated that they had been working with the staff of the State Building Commission and Ms. Jewell. Mr. Kurapati stated that the University had been strategic in restricting its funding in the event any unutilized remaining funds from the 2007 authorization were needed to address the liability created by the unamortized prepaid rent. Mr. Kurapati stated that the transaction was strategic for the University because it allowed the University to acquire property that was part of its master plan. He stated that it was also strategic because there had been private housing development around the University's campus that had presented oversight and security challenges to the University. Mr. Kurapati stated that this agreement allowed Memphis to actively participate in a housing project in a competitive student housing environment.

Mr. Wilson reminded the Authority that some of the comments made by Mr. Kurapati related to the business purposes of the transaction and that the Authority was approving only the incurrence of debt by the University. Mr. Wilson stated that the State Building Commission would determine whether the transaction was a good business deal. Mr. Wilson stated that he had reviewed the lease agreement and he did not believe it adversely affected the credit rating of the Authority in any material way.

Ms. Scott asked how the funding would be restricted so that it would not be otherwise expended or used to procure other properties. Mr. Kurapati confirmed that the University would allocate the funds so that they would not be otherwise used. Ms. Scott also stated that the bond authorization for the funding from 2007 would need to remain active until another source of funds would be earmarked to cover the liability. Mr. Wilson agreed and recognized Mr. Burn. Mr. Burn stated that the current funding amount would be amortized over time and would eventually decrease to an amount that would be de minimis. Mr. Wilson asked if there were any other questions. Hearing none, Mr. Wilson moved approval of the resolution and Mr. Lillard seconded the motion. The motion was unanimously approved.

Mr. Wilson asked if there were any other matters to come before the board. Hearing none, Mr. Hargett made a motion to adjourn. Mr. Lillard seconded the motion. The meeting was adjourned.

Approved on this 21<sup>st</sup> day of May, 2020.

Respectfully submitted,



Sandra Thompson  
Assistant Secretary