Sunset Public Hearing Questions for
STATE FUNDING BOARD
Created by Section 9-9-101, *Tennessee Code Annotated*
(Sunset Termination June 2016)

1. Provide a brief introduction to the State Funding Board, including information about its purpose, statutory duties, staff, and administrative attachment.

   The primary purpose and duty of the State Funding Board is to issue and administer the general obligation debt of the State.

   Other statutory duties of the State Funding Board are as follows:
   - account for the repayment of principal and interest thereon on general obligation notes and bonds
   - ensure compliance with the State's debt service coverage test as required by T.C.A. Section 9-9-105(c)
   - approve the State's investment and debt management policies
   - approve Economic and Community Development's FastTrack grants and loans as required by T.C.A. Section 4-3-717(e)
   - conduct hearing to develop consensus estimates of State revenue for the current and upcoming fiscal year
   - review and approve Other Post Employment Benefit ("OPEB") trust agreements submitted by local government entities
   - develop model financial disclosure policies for use by public entities pursuant to T.C.A. Section 9-21-151

   Additional statutory duties of the State Funding Board are provided in **Exhibit A** of this document.

   The Director of the Office of State and Local Finance and the Assistant to the Comptroller for Public Finance both serve as an Assistant Secretary to the Board. The Office of State and Local Finance serves as administrative staff for the Board and a Bond Accountant is designated to be responsible for the daily administration of the general obligation bond program.

2. Provide a list of members of the State Funding Board.

   The current members of the State Funding Board are as follows:

   - Bill Haslam, Governor, Chairman
   - Justin P. Wilson, Comptroller of the Treasury, Secretary
   - Tre Hargett, Secretary of State
   - David H. Lillard, Jr., State Treasurer
   - Larry B. Martin, Commissioner of Finance and Administration

   All members of the Board serve in an ex-officio capacity and the Governor serves as ex-officio Chairman.

3. How many times did the board meet in fiscal years 2014 and 2015? How many members were present at each meeting?

The board met nine times in fiscal year 2014 and eleven times in fiscal year 2015. The following chart shows how many members were present at each meeting:

FY 2014		FY 2015	
July 22, 2013	3*	July 11, 2014	3
September 16, 2013	4	August 15, 2014	4
October 24, 2013	4	September 16, 2014	4
December 10, 2013	4	October 8, 2014	3
December 17, 2013**	4	November 21, 2014	3
February 5, 2014	4	December 11, 2014	4
March 26, 2014	3	December 16, 2014**	4
May 6, 2014	3	February 26, 2015	4
June 18, 2014	4	April 15, 2015	3
		May 26, 2015	4
		June 23, 2015	4

* Three members were present and one member participated telephonically

** Meeting was reconvened from previous date

4. What per diem or travel reimbursement do members receive? How much was paid to board members during fiscal years 2014 and 2015?

Board members are not eligible for per diem payments; however, they are reimbursed for their travel expenses in accordance with Finance and Administration Travel Rules as long as the expenses are incurred while performing their duties. Typically, the only travel expenses incurred by the Board are expenses related to the annual Rating Agency presentations in New York City. The total travel expenses paid from the Debt Service Fund during fiscal year 2014 was $18,035.00 and the total paid during fiscal year 2015 was $9,366.34.

5. What were the board's revenues (by source) and expenditures (by object) for fiscal year 2014 and 2015?

Please refer to **Exhibit B**.

6. What were the major accomplishments of the board during fiscal years 2014 and 2015?

The Board's major accomplishments include:

- Successfully sold $111 million in long-term general obligation bonds to finance the state's capital project needs and an additional $79 million in refunding bonds, which resulted in almost $7 million in net present value savings to the State in August 2014.
- Successfully managed a general obligation commercial paper note program in the amount of $350 million. The program is used to finance capital construction, equipment and acquisitions until such projects are taken to long-term debt, which keeps financing costs low while projects are under construction.

- Issued guidelines with respect to the approval of plans of balloon indebtedness for local governments which must be approved by the Comptroller pursuant to Public Chapter 766, Acts of 2014.
- Approved a revised Report on Debt Obligation (State Form CT-0253) which must be prepared for all debt obligations issued or entered into by any public entity and filed with the Governing Body with a copy sent to the Comptroller's office. This revised form came with additional explanations to provide more clarity to the preparers of the form.
- Additionally, the Board proposed legislation, which was enacted in 2013, to remove any ambiguity of the state's GO pledge. This legislation provided that all future GO debt will be guaranteed with fees, taxes, and revenues allocated to the general, highway, and debt service funds and a clear debt limit was established. The statute clearly states that debt will always be paid first (in unlikely event it is necessary to prevent payment default) and exemplifies the state's willingness to support its debt.

7. What reports does the board prepare on its operations, activities and accomplishments, and who receives these reports?

   The State Funding Board prepares both a preliminary and final official statement for the issuance of long-term debt. The preliminary official statement is distributed to investment banking firms that are potential purchasers of the bonds and to potential investors. The preliminary official statement is distributed via the internet.

   Pursuant to a continuing disclosure agreement with its underwriters and in accordance with Securities and Exchange Commission Rule 15c2-12, staff prepares an annual disclosure statement to investors. This information is available to investors (or any other interested parties) via the Electronic Municipal Market Access site ("EMMA"), a service of the Municipal Securities Rulemaking Board.

   Investor Updates are distributed (typically once or twice a month)an Investor Update to approximately 330 underwriters, investors, credit analysts and other interested parties via a Listserv. This Investor Update reports on various financial aspects of the State, such as revenue reports and labor market report releases. It is published on the Comptroller of the Treasury's website.

   Semiannually, the Office of State and Local Finance prepares a State Indebtedness report, that provides detailed information on the State's debt-financing activities for the State Funding Board and other issuing authorities in the State. This report is published on the Comptroller's website.

8. In addition to the disclosure requirements placed on individual members of the board at Section 8-50-501, Tennessee Code Annotated, does the board have any policies in place to address potential conflicts of interests by board members, board employees, or other state employees who work with the board in any capacity?

   The Debt Management Policy adopted by the Board (see **Exhibit C**) addresses potential conflicts of interest. In addition, the Comptroller of the State of Tennessee has established a policy prohibiting the ownership, directly or indirectly, by the Office of State and Local Finance staff of debt issued by the Board.

9. Describe the board's role in the funding of state debt and the issuance of bonds. What types and amounts of bonds does the board issue? What does the board do to ensure that the state debt is at the level for the most efficient and effective operation of the state?

Pursuant to T.C.A. Section 9-9-202, the State Funding Board is authorized to issue bonds of the State of Tennessee in amounts and for purposes authorized by the general assembly which are the direct general obligations of the State of Tennessee for the payment of which as to both principal and interest the full faith and credit of the State is irrevocably pledged, and shall be further secured by a charge and lien upon all fees, taxes, and other revenues and funds allocated to the State's general fund, debt service fund, and highway fund, and if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such fund, unless legally restricted for other purposes.

Including bonds authorized by the 109th General Assembly, the amounts of general obligation bonds authorized, but not issued as of June 30, 2015 were:

Capital Projects	$	1,212,745,140	
Bridge Improvements	$	146,100,000	
Highways*	$	728,800,000	
	$	2,087,645,140	**

* Since 1978, highway construction has been funded with current revenue, but the State can give no assurance that this practice will continue.

** Excludes additional bonds not to exceed 2.5% of certain authorized amounts for the purposes of funding the bond discount and costs of issuance.

Debt levels and the related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines to manage a debt program in line with those resources. The State Funding Board has approved a Debt Management Policy which is available on the Comptroller's website and is attached as **Exhibit C** to this document. This policy is reviewed annually by the Funding Board. The date of last review was October 8, 2014.

The Board uses a combination of the issuance of short-term and long-term debt to accomplish its capital financing goals. During the project construction period, short-term debt is issued through the State's commercial paper program. When long-term debt is sold, the commercial paper is redeemed and the debt repayment schedule is structured with level principal payments over a twenty-year period. Thus, the maximum debt service is paid at the end of the first year that the new bonds are outstanding. Long-term debt may be refinanced (refunded) subject to certain restrictions as set forth in the Debt Management Policy, i.e. the refunding will only be executed when the Board confirms that it accomplishes cost savings to the public or that it is necessary to maintain compliance with the federal code.

Exhibit D presents the results of the most recent general obligation bond sale dated August 19, 2014.

Exhibits E shows the existing debt service schedule beginning with the fiscal year ended June 30, 2015, for the state's general obligation bonds.

The Debt Management Policy prescribes a “debt service coverage test” as required by T.C.A. Section 9-9-105, which must be calculated prior to the issuance of any long-term general obligation debt. If the Debt Service Amount (as defined in the Policy) is greater than ten percent (10%) of the Total Tax Revenue Amount (as defined in the Policy), then the bonds may not be issued. If the Debt Service Amount is six percent (6%) or more of the Total Tax Revenue Amount, the Board will cause a debt capacity study to be conducted on an annual basis until the Debt Service Amount drops below 6% of the Total Tax Revenue Amount.

10. How does the board manage the “debt service fund?” List the revenue sources for the fund and the types of expenditures paid by the fund.

    The State Funding Board adopts a resolution in each fiscal year allocating revenues to the debt service fund for principal and interest requirements on the State’s general obligation debt (bonds and commercial paper.) Revenue sources for the debt service fund are Taxes (Sales, Gasoline, Franchise, and Excise) and Motor Vehicle Title Fees.

    Expenditures are made for retirement of principal maturing, bond and note interest, and certain costs, such as bond attorney and underwriters’ fees, related to debt issuance. All funds paid to the Board under the provisions of Chapter 9 of Title 9 “shall be dedicated to and applied solely to the purposes specified” in that chapter. (T.C.A. Section 9-9-107 and Section 9-9-116)

11. What is the board’s role in the rating of bonds issued by the State? What have recent bonds issued been rated?

    The members of State Funding Board play an active role in presenting information to the rating agencies regarding the credit quality of the State. This dialogue with the rating agencies consists of a 2-3 hour meeting with each rating agency in which the budget, financial position, and other financial and economic data are thoroughly discussed. In addition throughout the year, members of the State Funding Board and/or staff to the Board participate in phone conversations with the rating agencies on such items as the proposed budget, revenue collections, TCRS, and other relevant topics.

    The most recent ratings of the General Obligation bonds of the State were issued in August of 2014 in conjunction with the State’s general obligation bond sale. The ratings issued were Aaa, AA+, and AAA by Moody’s, Standard & Poor’s, and Fitch, respectively.

12. How does the board manage cash or investments that are not immediately needed so that such cash/investments produce a satisfactory yield while keeping financial risk to a minimum?

    Pending the payment of the principal or interest of the outstanding debt of the State, all cash is invested by the Treasurer in the State Pooled Investment Fund.

13. What criteria does the board used to select outside professionals such as financial advisors, paying agents, and underwriters?

The Board's policy with respect to the selection of outside professionals such as financial advisors is to first determine the minimum eligibility, qualification, skill, and national standing/reputation requirements. The Board also looks at the capitalization requirements of the institution and reviews the cost of the services that are to be provided. The State Funding Board's Debt Management Policy provides, and the Board follows, the guidelines for the selection. Refer to **Exhibit C** for the Debt Management Policy.

14. What were the principal and interest payments for fiscal years 2014 and 2015?

	FY 2014	**FY 2015 (Unaudited)**
Bond Principal	$ 160,460,000.00	$ 152,025,000.00
Bond Interest	82,639,017.49	76,235,812.87
Total	243,099,017.49	228,260,812.87
CP Principal	5,780,000.00	241,680,000.00
CP Interest	298,559.42	208,982.22
Total	6,078,559.42	241,888,982.22
Grand Total	$ 249,177,576.91	$ 470,149,795.09

15. What was the outstanding debt at the end of fiscal years 2014 and 2015?

	FY 2014	**FY 2015 (Unaudited)**
Bonds	$ 1,817,950,000	$ 1,772,015,000
Commercial Paper	324,366,000.00	$ 197,686,000
	$ 2,142,316,000	$ 1,969,701,000

16. What responsibilities, if any, does the board have in managing/overseeing debt for state and local governments?

The Board is authorized to issue bonds of the State of Tennessee to fund authorized projects or to refund outstanding obligations previously issued under its Authority. The Board is also responsible for approving debt management policies for the State's debt.

The Board is authorized to establish policies and procedures under which the Comptroller of the Treasury or the Comptroller's designee shall be guided in the administration of state laws concerning the issuance of debt by counties, municipalities, and utility districts.

The Board has the authority to adopt guidelines, rules and regulations related to interest rate swaps and forward purchase agreements entered into by local governments.

Refer to **Exhibit A** for other statutory responsibilities and duties of the Board.

17. Describe any items related to the board that require legislative attention and your proposed legislative changes.

Staff continues to review all legislation with the State Funding Board. Upon conclusion of this review, the Funding Board may propose new legislation or amendments to the current legislation.

18. Should the board be continued? To what extent and in what ways would the absence of the board affect the public health, safety, or welfare?

    The State Funding Board requests an extension to 2024. Should the Board not be extended, other state agencies or boards would be required to execute the responsibilities of the State Funding Board.

19. Has the board developed and implemented quantitative performance measures for ensuring it is meeting its goals? (Please answer either yes or no). If the board has developed and implemented quantitative performance measures, answer questions 20 through 27. If the board has not developed quantitative performance measures, proceed directly to question 28.

    No.

20. What are your key performance measures for ensuring the board is meeting its goals? Describe so that someone unfamiliar with the program can understand what you are trying to measure and why it is important to the operation of your program.

21. What aspect[s] of the program are you measuring?

22. Who collects relevant data and how is this data collected (e.g., what types information systems and/or software programs are used) and how often is the data collected? List the specific resources (e.g., report, other document, database, customer survey) of the raw data used for the performance measure.

23. How is the actual performance measure calculated? If a specific mathematical formula is used, provide it. If possible, provide the calculations and supporting documentation detailing your process for arriving at the actual performance measure.

24. Is the reported performance measure result a real number or an estimate? If an estimate, explain why it is necessary to use an estimate. If an estimate, is the performance measure result recalculated, revised, and formally reported once the data for an actual calculation is available?

25. Who reviews the performance measures and associated data/calculations? Describe any process to verify that the measure and calculations are appropriate and accurate.

26. Are there written procedures related to collecting the data or calculating and reviewing/verifying the performance measure? Provide copies of any procedures.

27. Describe any concerns about the board's performance measures and any changes or improvements you think need to be made in the process.

28. Please list all board programs or activities that receive federal financial assistance and, therefore are required to comply with Title VI of the Civil Rights Act of 1964. Include the amount of federal funding received by program/activity.

The Board has no programs or activities that receive federal financial assistance.

If the board does receive federal assistance, please answer questions 29 through 36. If the board does not receive federal assistance, proceed directly to question 35.

29. Does the board prepare a Title VI plan? If yes, please provide a copy of the most recent plan.

30. Does the board have a Title VI coordinator? If yes, please provide the Title VI coordinator's name and phone number and a brief description of his/her duties. If not, provide the name and phone number of the person responsible for dealing with Title VI issues.

31. To which state or federal agency (if any) does the board report concerning Title VI? Please describe the information your board submits to the state or federal government and/or provide a copy of the most recent report submitted.

32. Describe the board's actions to ensure that association staff and clients/program participants understand the requirements of Title VI.

33. Describe the board's actions to ensure it is meeting Title VI requirements. Specifically, describe any board monitoring or tracking activities related to Title VI, and how frequently these activities occur.

34. Please describe the board's procedures for handling Title VI complaints. Has the board received any Title VI-related complaints during the past two years? If yes, please describe each complaint, how each complaint was investigated, and how each complaint was resolved (or, if not yet resolved, the complaint's current status).

35. Please provide a breakdown of current board staff by title, ethnicity, and gender.

Title	Ethnicity	Gender	
State and Local Finance, Director - Asst. Secretary	Caucasion	Female	
Assistant to Comptroller for Public Finance - Asst. Secretary	Caucasion	Female	
Staff to the Governor	Caucasion	Male	*
Staff to the Comptroller	Caucasion	Male	
Staff to the Comptroller	Caucasion	Female	
Staff to the Treasurer	Caucasion	Female	
Staff to the Treasurer	Caucasion	Female	*
Staff to the Secretary of State	Caucasion	Male	
Staff to the Commissioner of Finance & Administration	Caucasion	Female	
Staff to the Commissioner of Finance & Administration	Caucasion	Female	
Bond Accountant - Staff	Caucasion	Female	
Bond Finance Manager - Staff	Caucasion	Female	

* Staff was in place as of June 30, 2015, but will no longer serve in this capacity

36. Please list all board contracts, detailing each contractor, the services provided, the amount of the contract, and the ethnicity of the contractor/business owner.

Contractor	Services Provided	Contract Amount	Ethnicity of Contractor
Public Financial Management	Financial Advisory Services	$ 1,290,000.00	Various

Exhibit A

Statutory Duties of the State Funding Board

Administration of State Finance

T.C.A. Section 4-3-716(g). (Economic Development – FastTrack) The commissioner of economic and community development is authorized, subject to the concurrence of the State Funding Board, to determine the amount of new commitments unlikely to be accepted based on historical program trends and may over-commit to the extent of such determination. In no event may such over-commitments exceed thirty percent (30%) of the appropriations available for new grants.

T.C.A. Section 4-3-717(e). (Economic Development – FastTrack) The State Funding Board is authorized to establish, by policy or action, the process by which the commissioner of economic and community development shall seek and receive approval for grants and loans if such grants or loans are greater than $750,000 per eligible business within any three (3) year period.

T.C.A. Section 4-3-1009(c). (Acquisition by the State of Leased Facilities) Upon the approval by the governor and the fiscal review committee, the commissioner shall present a recommendation to the State Funding Board to determine if it is in the best interest of the State to directly own a facility that is currently a leased facility.

T.C.A. Section 4-3-2312(c). (Department of Transportation—Cost Stabilization Contracts) Contracts entered into for the purpose of stabilizing the net expense of the department of transportation may be procured in such manner pursuant to policy and executed in such form, all as approved by the state chief procurement officer, with the approval of the State Funding Board.

T.C.A. Section 4-3-5404(c). (Tennessee Sports Hall of Fame –Borrowing Authority) The Tennessee Sports Hall of Fame must obtain express, prior approval of the State Funding Board before borrowing money.

T.C.A. Section 4-4-116. (Federal Loans or Repayable Grants) Acceptance of federal aid made available to the State in the form of a loan is subject to the approval of the State Funding Board.

T.C.A. Section 4-5-106(a). (Uniform Administrative Procedures Act) The State Funding Board is exempt from the Uniform Administrative Procedures of the State.

T.C.A. Sections 4-31-305 through 4-31-308. (Industrial Development Loan Program of 1981) The State Funding Board, in consultation with the Tennessee Local Development Authority, is authorized to approve industrial development loans and allocate funds to eligible counties or municipalities from legally available state funds.

T.C.A. Sections 4-51-111(b) and (c). (Lottery for Education Account) The State Funding Board may recommend appropriation of funds to or from the general shortfall reserve subaccount within the lottery for education account. The State Funding Board is required to establish a projected revenue range of net lottery proceeds for the remainder of the then current fiscal year and the next succeeding four (4) fiscal years. With the assistance of the Tennessee student assistance corporation, the State Funding Board shall annually project the long-term funding needs of the lottery scholarship and grant programs. The State Funding Board is authorized to accept requests from state agencies recommending the use of excess lottery proceeds and is required to forward those recommendations to the Governor for consideration in the budget.

T.C.A. Section 9-4-301(a). (Deposit of State Funds) The State Funding Board has the authority to establish a cash management policy to govern the cash management and deposit practices of every department, institution, office and agency of state government. The board is authorized to review cash management practices and make recommendations to appropriate state officials regarding modifications to current practices as well as the cash processing equipment needs of various state agencies.

T.C.A. Section 9-4-602. (Investment of State Funds/Bond Proceeds) It is the policy of the State of Tennessee that all funds in the state treasury shall be invested by the state treasurer to the extent practicable. Investments shall be made in accordance with policy guidelines approved by resolution of the State Funding Board which will also include a procedure for determining the interest rate to be paid on investments of the treasury. The State Funding Board is authorized to establish policy and procedure for investment of bond proceeds.

T.C.A. Section 9-4-603(h). (State Pooled Investment Fund) The State Funding Board may establish limits, conditions or restrictions on the acceptance of moneys into the fund and withdrawal of monies from the fund.

T.C.A. Section 9-4-608. (Intermediate Term Investment Fund) The State Funding Board shall determine whether a need exists for a longer-term investment fund for funds in the custody of the state treasurer. If a need exists, the State Funding Board may, by resolution, create an intermediate-term investment fund and shall establish the terms of participation in the fund. The State Funding Board may establish limits, conditions or restrictions on the acceptance of moneys into the fund and withdrawal of monies from the fund.

T.C.A. Section 9-4-704(a). (Local Government Investment Pool) The State Funding Board may establish limits, conditions or restrictions on the acceptance of moneys into the fund and withdrawal of monies from the fund.

T.C.A. Section 9-4-5202. (Estimated Rate of Growth of Economy) The State Funding Board is required to, on at least an annual basis, review the Econometric Model prepared by the University of Tennessee and to report to the Finance, Ways & Means Committees of the General Assembly as to the reasonableness of the estimate of the rate of growth of the state's economy. In addition, as part of the budgetary process, the State Funding Board shall conduct public hearings to develop consensus estimates of state revenue for the current and upcoming fiscal year. The State Funding Board shall also identify and report in its presentation of state revenue estimates whether any growth in franchise and excise tax revenue is nonrecurring or recurring.

Title 9, Chapter 9 of T.C.A. (Funding of State Debt) The Tennessee State Funding Board is established in T.C.A. Section 9-9-101. The statutory provisions in this chapter identify the State Funding Board's duties related to the issuance of general obligation bonds and refunding bonds, custody of bond proceeds, repayment of bonds and interest thereon, and other administrative activities relating to debt management.

T.C.A. Section 9-13-204. (Emergency Financial Aid to Local Governments) The State Funding Board is authorized to guarantee the payment of a loan made to a local government by another lender.

T.C.A. Section 11-14-306. (Investment—Natural Resources Trust Fund) The State Funding Board shall establish the policy guidelines for investment of the natural resources trust fund in any manner which is lawful for the investment of state funds.

T.C.A. Sections 41-8-109 and 110. (County Corrections Incentive Act) The State Funding Board is authorized to make grants or loans, as funds are available, to any approved applicant county to assist that county in the construction or renovation of a correctional facility. In addition, for the purpose of providing moneys to assist approved applicant counties in financing capital improvements of correctional facilities, the State Funding Board is authorized to issue general obligation bonds and notes.

T.C.A. Section 54-3-105(c). (Establishment of State Tollway Fund) The State Funding Board, at the request of the commissioner of transportation, may pledge, encumber, transfer, or otherwise obligate funds held in the state tollway fund as security for bonds.

T.C.A. Section 54-3-109. (Bonds – Tollway and Toll Facility Projects) The State Funding Board is authorized to issue bonds of this State, without limitation as to amount, for the purpose of financing costs associated with the development of tollway projects and toll facility projects, as requested by the commissioner of transportation. The request shall be accompanied by such information as the State Funding Board may require.

T.C.A. Section 58-7-107. (Veterans' Homes Board) The State Funding Board is authorized to contract or to make arrangement s as it may deem necessary to provide for the issuance of debt of the veterans' homes board. The veterans' homes board shall review plans authorizing the incurrence of debt with the comptroller of the treasury or the comptroller's designee.

T.C.A. Section 67-3-901(j)(4). (Utility Relocation Loan Program) The State Funding Board is authorized to make and administer loans for the utility relocation loan program. This program provides loan financing for all costs incurred by certain local government entities related to relocating, moving or re-installing their utility facilities, without any additions to their utility facilities, when located within rights-of-way of highways on the system of state highways and required because of highway construction projects administered by the department of transportation.

Oversight of Local Finance

T.C.A. Section 4-3-306. (Creation, Organization and Powers of Administrative Departments and Divisions) The State Funding Board is authorized to establish policies and procedures under which the comptroller of the treasury or the comptroller's designee shall be guided in the administration of state laws concerning the issuance of debt by counties, municipalities, and utility districts.

T.C.A. Section 7-34-109(h). (Municipal Utilities and Interest Rate Agreements) Governing bodies of municipalities must comply with the State Funding Board's Guidelines for Interest Rate and Forward Purchase Agreements.

T.C.A. Section 7-39-305(i). (Energy Acquisition Corporations and Interest Rate Agreements) Governing bodies of energy acquisition corporations must comply with the State Funding Board's Guidelines for Interest Rate and Forward Purchase Agreements.

T.C.A. Section 7-60-213. (Tennessee Home Mortgage Act) Any county issuing bonds pursuant to this statutory authority shall file with the State Funding Board such information concerning any bond issue as requested by the State Funding Board.

T.C.A. Section 7-82-502(e). (Utility Districts and Interest Rate Agreements) Governing bodies of utility districts must comply with the State Funding Board's Guidelines for Interest Rate and Forward Purchase Agreements.

T.C.A. Sections 8-50-1203 through 8-50-1205. (Other Post-Employment Benefit Investment Trust) Trust documents establishing an investment trust for the purpose of pre-funding other post-employment benefits accrued by employees of the political subdivision must be submitted to the State Funding Board for approval.

T.C.A. Section 9-3-505(c). (Local Governments – Actuarial Determined Contribution to Pension Plan) If a political subdivision is unable to meet the annual funding progress percentage as required by law, the political subdivision may submit a plan of correction to the state treasurer for consideration. If the state treasurer determines the plan of correction is sufficient to comply with the law as soon as possible and to pay one hundred percent (100%) of the actuarial determined contribution to the pension plan by June 30, 2020, the state treasurer shall submit the plan of correction to the state funding board for approval.

T.C.A. Section 9-19-104. (Registration Agent Qualifications) The State Funding Board is authorized to adopt guidelines relative to the qualifications of registration agents or paying agents for any fully registered public obligations issued in Tennessee.

T.C.A. Section 9-21-127(a). (Local Governments - Unfunded Pension Obligations) Local governments may issue general obligation bonds or revenue bonds for certain unfunded pension obligations or for not greater than fifty percent (50%) of the value of certain unfunded other post-employment benefits if such is approved by the State Funding Board after receiving a recommendation by the comptroller of the treasury or the comptroller's designee.

T.C.A. Section 9-21-134(g). (Local Governments –Balloon Indebtedness) The State Funding Board is authorized to establish guidelines with respect to the comptroller of the treasury's approval of balloon indebtedness and may exempt certain classes or issues of indebtedness from such approval.

T.C.A. Section 9-21-151(b). (Disclosure of Costs of Issuance of Debt) The State Funding Board is authorized to develop model finance transaction policies for use by public entities and exempt from the filing requirements of this section any finance transaction that are deemed de minimis by the board, where the public entity is required by statute to participate in the financing program, that is a conduit transaction for a nongovernmental entity, or where the disclosure of costs of the transaction is deemed not consistent with the public disclosure intent of this section.

T.C.A. Sections 9-21-903 and 1003. (Local Governments – Refunding Bonds) If the sole purpose of the plan to issue general obligation or revenue refunding bonds is to provide cost savings to the public and if the State Funding Board has established guidelines with respect to the cost savings, the comptroller of the treasury or the comptroller's designee will determine whether the plan of refunding complies with the guidelines.

T.C.A. Section 64-1-604. (Duck River Watershed Agency) The State Funding Board is authorized to contract or to make other arrangements as it may deem necessary to provide for the issuance of bonds, notes or other obligations of the Duck River Watershed Agency, or in the State Funding Board's discretion, the agency may enter into such contracts or other arrangements. Any contract or arrangement entered into for the purpose of the issuance of any bonds, notes or other obligations shall be subject to the approval of the State Funding Board.

T.C.A. Section 64-1-905. (West Fork Drakes Creek Dam and Reservoir Interstate Authority) Any resolution to authorize the sale of bonds for the authority shall be submitted to the State Funding Board for approval.

T.C.A. Section 64-5-211. (Four Lake Regional Industrial Development Authority) Any resolution to authorize the sale of bonds for the authority shall be submitted to the State Funding Board for approval.

T.C.A. Section 64-6-106. (Tennessee Regional Megasite Authority) Any resolution of the authority authorizing the sale of bonds shall be submitted to the State Funding Board for approval.

T.C.A. Section 64-10-107. (East Tennessee Regional Agribusiness Marketing Authority) The State Funding Board is authorized to provide for the issuance of bonds, notes or other obligations of the authority, or in the State Funding Board's discretion, the authority may enter into such contracts or other arrangements. Any contract or arrangement entered into for the purpose of the issuance of any bonds, notes or other obligations shall be subject to the approval of the State Funding Board.

Exhibit B

5. What were the board's revenues (by source) and expenditures (by object) for fiscal year 2014 and 2015?

(Expressed in Thousands)	Fiscal Year 2013	Fiscal Year 2014
Revenues		
Taxes	$ 399,500	$ 409,500
Licenses, fines, fees, and permits	2,700	2,700
Departmental services	1,468	1,300
Total Revenues	403,668	413,500
Expenditures		
Debt Service	218,882	217,850
Excess of revenues over expenditures	184,786	195,650
Other Financing Sources (uses)		
Refunding bond proceeds	25,713	
Refunding payment to escrow	(25,473)	
Bond premium	11,672	
Transfers In	4,122	3,837
Transfers Out	(191,985)	(218,883)
Total other financing sources (uses)	(175,951)	(215,046)
Net changes in fund balances	$ 8,835	$ (19,396)

Note: FY15 Revenues and Expenditures were not available at the time

Exhibit C

Tennessee State Funding Board

Debt Management Policy

Prepared by
Office of State and Local Finance

Table of Contents

Debt Management Policy

Introduction

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

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for the State to manage its debt program in line with those resources.

The debt program for the State includes general obligation debt issued by the State for which the State has pledged its full faith and credit for the payment of both principal and interest. The Board is the entity authorized to issue general obligation indebtedness of the State. The Board is comprised of the Governor, the State Comptroller of the Treasury, the Secretary of the State, the State Treasurer and the Commissioner of Finance and Administration. The Board issues all general obligation indebtedness in the name of the State pursuant to authorization by the General Assembly.

Goals and Objectives

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

A. The goals of this policy are:

1. To document responsibility for the oversight and management of debt related transactions;

2. To define the criteria for the issuance of debt;

3. To define the types of debt approved for use within the constraints established by the General Assembly;

4. To define the appropriate uses of debt;

5. To define the criteria for evaluating refunding candidates or alternative debt structures; and

6. To minimize the cost of debt.

B. The objectives of this policy are:

1. To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;

2. To identify legal and administrative limitations on the issuance of debt;

3. To ensure the legal use of the Board's debt issuance authority;

4. To maintain appropriate resources and funding capacity for present and future capital needs;

5. To protect and enhance the State's credit rating;

6. To evaluate debt issuance options;

7. To promote cooperation and coordination with other stakeholders in the financing and delivery of services;

8. To manage interest rate exposure and other risks; and

9. To comply with Federal Regulations and Generally Accepted Accounting Principles ("GAAP").

Debt Management/General

A. Purpose and Use of Debt Issuance

Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State (including Title 9, Chapter 9, Tennessee Code Annotated and various bond authorizations enacted by the General Assembly of the State), pursuant to resolutions adopted by the Board.

1. Debt may be issued for public purposes of respective State departments and institutions, among others, including without limitation to make grants to counties, metropolitan governments, incorporated towns, cities, special districts of the State, or government agencies or instrumentalities of any of them.

2. Debt may be used to finance capital projects authorized by the General Assembly through Bond Acts, included in the Capital Budget and/or approved by the State Building Commission and to fund discount and costs of issuance, limited to 2.5% of the amount allocated in the bond authorizations.

3. Debt may be authorized to fund highway improvements. Such authorization is used as a cash management tool and gives budget authority to enter into various contracts for highway capital improvements. The projects are not constructed until the current revenue is available to pay the State's share of the projects. Highway bond authorization is canceled once projects have been funded with current funds.

4. Debt may only be used to fund operating expenditures when such debt is repaid in the fiscal year issued.

5. Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs of projects as authorized by the bond authorization and a resolution of the Board.

6. Bonds may be issued to refinance outstanding debt.

B. Debt Capacity Assessment

1. The "debt service coverage" test (the "Test") shall be used to compute the maximum principal amount of bonds that the Board can issue after July 1, 2013. The first step of the Test is to calculate the amount necessary to pay the maximum annual debt service in the then current or any future fiscal year on all outstanding bonds and bonds proposed to be issued (the "Debt Service Amount"). The second and final step of the Test is compare the Debt Service Amount with the amount of total state tax revenue (as defined in Section 9-9-104, Tennessee Code Annotated) that was allocated to the general fund, debt service fund and highway fund for the immediately preceding fiscal year (the "Total Tax Revenue Amount"). If the Debt Service Amount is not greater than ten percent (10%) of the Total Tax Revenue Amount, then the bonds may be issued.

2. If the Debt Service Amount is six percent (6%) or more of the Total Tax Revenue Amount, the Board shall cause a debt capacity study to be conducted on an annual basis until the Debt Service Amount drops below six percent (6%) of the Total Tax Revenue Amount.

C. Federal Tax Status

1. **Tax-Exempt Debt** – The Board will use its best efforts to maximize the amount of debt sold under this policy using tax-exempt financing based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints;

2. **Taxable Debt –** The Board will sell taxable debt when necessary to finance projects not eligible to be financed with tax-exempt debt. However, the Board will finance taxable projects within the permitted limits of tax-exempt financings whenever possible.

D. Legal Limitations on the Use of Debt

1. No debt obligation, except as shall be repaid within the fiscal year of issuance, shall be sold to fund the current operation of any state service or program.

2. The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized.

3. Debt may only be issued under a bond authorization for which the General Assembly has appropriated sufficient funds to pay the first year's obligation of principal and interest, and when the Board has determined that such funds are available.

Types of Debt

A. Bonds

Security – Pursuant to Section 9-9-105, Tennessee Code Annotated, the Board may issue general obligation bonds, which are direct general obligations of the State payable as to both principal and interest from any funds or monies of the State from whatever source derived. The full faith and credit of the State is pledged to the payment of principal of and interest on all general obligations bonds. Subject only to Section 9-9-104(a), all general obligation debt constitutes a charge and lien upon the entire fees, taxes and other revenues and funds allocated to the general fund, the debt service fund, and the highway fund.

These bonds may be structured as:

1. **Fixed Interest Rate Bonds** – Bonds that have an interest rate that remains constant throughout the life of the bond.

- Serial Bonds
- Term Bonds
- Capital Appreciation Bonds

2. **Variable Interest Rate Bonds –** Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution. Variable rate debt may be used in the following circumstances:

   - For bond anticipation notes issued during the construction period phase of a project;
   - To finance projects that have a high probability of having a change from public to private use over the period of amortization;
   - For projects requiring an extraordinary redemption period prior to a standard call date;
   - For asset liability matching purposes; and
   - To diversify the interest rate risk of the debt portfolio.

3. **Capital Appreciation Bonds** – A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded interest rate until maturity, at which time the investor receives a single payment representing both the initial principal amount and the total investment return.

B. Short Term Debt

Pending the issuance of the definite bonds authorized by the bond authorizations, the Board may issue short term debt. Such debt shall be authorized by resolution of the Board. Debt issued in a short-term mode may be used for the following reasons:

1. To fund projects with an average useful life of ten years or less; and

2. To fund projects during the construction phase of the projects.

   If the equipment or other capital project has an average useful life of greater than five years but less than twelve, the Board may provide that a bond anticipation note or any renewal of such note mature more than five years from the date of issue of the original note; provided, that an amortization schedule of principal repayment is established for the project funded by the note and provisions are made such that any note or renewal note or bond refunding such note attributed to the financing of such project shall be redeemed or retired no later than the useful life of the project and no later than either twenty-five years from the date of such original note or twenty years from the date the project is completed and placed into full service, whichever is earlier.

3. To fund cash flow deficits when repaid in the fiscal year in which the debt was issued.

These notes may be structured as:

1. **Bond Anticipation Notes ("BANs") –** BANs are short term obligations that will be repaid by proceeds of a subsequent long-term bond issue.

    - **Commercial Pap**er ("CP") – CP is a form of bond anticipation notes that has maturities 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 and then refunded with a bond once projects are completed to take advantage of lower short-term rates during the construction period.

    - **Fixed Rate Notes –** Notes issued for a period of time less than three years at a fixed interest rate that are used to fund capital projects during the construction period.

    - **Variable Rate Notes –** Notes 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.

2. **Tax and Revenue Anticipation Notes ("TRANs") -** TRANs are short term notes secured by a pledge of taxes and other general fund revenues in the current fiscal year of the State. TRANs, if issued, will constitute direct obligations of the State backed by the full faith and credit of the State. All TRANs will be redeemed in the same fiscal year in which they are issued.

Debt Management Structure

The Board shall establish by resolution all terms and conditions relating to the issuance of debt and will invest all proceeds pursuant to the terms of the Board's authorizing resolution and the State's investment policy.

A. Term

The term of any debt (including refunding debt) used to purchase or otherwise obtain or construct any equipment, goods, or structures shall have a reasonably anticipated lifetime of use equal to or less than the average useful life of the project. The final maturity of the bond debt should be limited to 20 years after the date of issuance or the date the project is deemed complete or placed in service, whichever is earlier unless otherwise approved by the Board specified in the Bond Act and Bond Resolution.

B. Debt Service Structure

Debt issuance shall be planned to achieve level principal over a twenty year period unless otherwise specified in the bond act. The Board shall avoid use of bullet or balloon maturities; this does not include term bonds with mandatory sinking fund requirements.

No debt shall be structured with other than at least equal principal repayment unless such structure is specifically approved by unanimous vote of the members of the Board.

C. Call Provisions

When issuing new debt, the structure may include a call provision that occurs no later than ten years from the date of delivery of the bonds. Call features should be structured to provide the maximum flexibility relative to cost. The Board will avoid the sale of long-term non-callable bonds absent careful evaluation by the Board with respect to the value of the call option.

D. Original Issuance Discount/Premium

Bonds sold with original issuance discount/premium are permitted with the approval of the Board.

The Board is authorized to sell bonds in amounts not to exceed 2.5% of the amount stated in the bond act for funding discounts.

Refinancing Outstanding Debt

The Board with assistance from the Board's staff and Financial Advisor shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The Financial Advisor will conduct an analysis of all refunding candidates at least semiannually to identify potential refunding candidates from the outstanding bond maturities. The Board will consider the following issues when analyzing possible refunding opportunities:

A. Debt Service Savings

The bonds will be considered for refunding when:

1. The refunding of the bonds to be refunded results in aggregate present value savings of at least 4% as certified to the Board by the Financial Advisor to the Board, and the savings of the bonds to be refunded must be equal to or greater than twice the cost of issuance; or

2. 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

3. A project is sold while still in its amortization period.

The Refunding Bond will only be executed when the Board confirms the receipt of the certification of the Financial Advisor to the Board and determines that the refunding of the bonds to be refunded accomplishes cost savings to the public or that such refunding is necessary to maintain compliance with the federal code.

B. Term of Refunding Issues

The Board will refund bonds within the term of the originally issued debt. 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 Board shall structure refunding escrows using permitted securities deemed to be prudent under the circumstances and will endeavor to utilize the least costly securities unless considerations of risk, reliability and convenience dictate otherwise. The Board will take competitive bids on any selected portfolio of securities and will award to the lowest cost provider giving due regard to considerations of risk and reliability or unless State and Local Government Securities ("SLGs") are purchased directly from the Federal Government. The provider must guarantee the delivery of securities except for SLGs. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Board from its own account.

Methods of Sale

Pursuant to Section 9-9-205, Tennessee Code Annotated, new money general obligation bonds must be sold at competitive sale. However, until June 30, 2016, the Board may issue bonds through a negotiated sale, if it is in the best interest of the State. Section 9-9-207, Tennessee Code Annotated, permits the Board to determine the method of sale for Refunding bonds. Following each sale, the Office of State and Local Finance with the assistance of the Financial Advisor shall provide a report to the Board on the results of the sale.

A. Competitive Sale – In a competitive sale, the Board's bonds are posted for auction sale and awarded to the bidder providing the lowest true interest cost as long as the bid conforms to the requirements set forth in the official notice of sale.

B. **Negotiated Sale–** While the Board prefers the use of a competitive process, the Board recognizes some bonds are best sold through negotiation. In a negotiated sale, the underwriter(s) will be chosen through a Request for Proposal ("RFP") process and underwriter's fees are negotiated prior to the sale. The factors to be considered for a negotiated sale include the following:

- Volatility of market conditions
- Size of the bond sale
- Credit strength
- Whether or not the bonds are issued as variable rate demand obligations

C. Private Placement

From time to time the Board may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the Board relative to other methods of debt issuance.

Selection of Underwriting Team (Negotiated Transaction)

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

A. Selection of Senior Management Team – The Board with assistance from its staff and 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 Board;
- Willingness to risk capital and demonstration of such risk;
- Quality and experience of personnel assigned to the Board's engagement;
- Financing ideas presented; and
- Underwriting fees.

B. Selection of Co-Managers – Co-managers will be selected on the same basis as the senior manager. The number of co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the Board's bonds. The Board will affirmatively determine the designation policy for each bond issue.

C. Selling Groups – The Board may use selling groups in certain transactions to maximize the distribution of bonds to retail investors. Firms eligible to be a member of the selling group, should either have a public finance department or pricing desk located within the boundaries of the State.

D. Underwriter's Counsel – In any negotiated sale of the Board's debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from the Board.

E. Underwriter's Discount – The Board will evaluate the proposed underwriter's discount in comparison to other issues in the market. If there are multiple underwriters in the transaction, the Board 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 will be established and communicated to all parties by the Board. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

F. Evaluation of Underwriter Performance – The Board, with assistance of the staff and the Financial Advisor, will evaluate each bond sale after completion to assess the following: costs of issuance including the underwriter's compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credit.

Credit Quality

The Board's debt management activities will be conducted to receive the highest credit ratings possible, consistent with Board's financing objectives. If the State's credit ratings are downgraded below the AAA rating, the capital funding and debt strategy will immediately be reviewed and necessary steps within the Board's authority taken to avoid additional downgrades and to restore the AAA rating.

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

The Office of the Comptroller of the Treasury through the Office of State and Local Finance will engage the relevant Rating Agencies in advance, in the event that the Board decides to move forward with a plan of finance that includes variable rate debt, new commercial paper programs or the use of derivatives.

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

Credit Enhancements

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

A. Bond Insurance

The Board may purchase bond insurance when such purchase is deemed prudent and advantageous for negotiated sales. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds. For competitive sales, the purchaser of the bonds will determine whether bond insurance will be used and will be included in the bid for the bonds and will be paid for by the purchaser of the bonds.

The Board will qualify bonds for insurance and allow bidders to purchase the bonds with or without insurance. In a negotiated sale, the Board will select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the Board.

B. Letters of Credit

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

C. Liquidity

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

- Alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and 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 State.

D. Use of Structured Products

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

Risk Assessment

The Office of State and Local Finance 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 Office will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

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

B. Default Risk – The risk that debt service payments cannot be made by the due date.

C. Liquidity Risk – The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing.

D. Interest Rate Risk – The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issued had been fixed.

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

Transparency

The Board shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. Additionally all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens in a timely manner (see also Federal Regulatory Compliance and Continuing Disclosure), including:

A. Within four weeks of closing on a debt transaction, the debt service schedule outlining the rate of retirement of the principal amount shall be posted to the Board's website;

B. Within 45 days from closing, costs related to the issuance and other information set forth in Section 9-21-151,Tennessee Code Annotated, shall be prepared, a copy filed with the Office of State and Local Finance, and the original presented at the next meeting of the Board; and

C. Disclosure of costs will be made by electronic submission through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") website.

Professional Services

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

A. Issuer's Counsel – The Board will enter into an engagement letter agreement with each lawyer or law firm representing the Board in a debt transaction. No engagement letter is required for any lawyer who is an employee of the Office of Attorney General and Reporter for the State of Tennessee who serves as counsel to the Board or of the Office of General Counsel, Office of the Comptroller of the Treasury, which serves as counsel to the Office of State and Local Finance regarding Board matters.

B. Bond Counsel – Bond counsel is contracted by the Office of the Comptroller of the Treasury through the Office of State and Local Finance and serves to assist the Board in all its general obligation debt issues.

C. Financial Advisor – The financial advisor is contracted by the Office of the Comptroller of the Treasury through the Office of State and Local Finance and serves and assists the Board on financial matters. The Board shall approve the written agreement between the Office of the Comptroller of the Treasury and each person of the firm serving as financial advisor in debt management advisory services and debt issuance transactions. However, when in a competitive or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance. The Financial Advisor will be subject to a fiduciary duty which includes a duty of loyalty and a duty of care.

Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the Board shall be required to disclose to the Board existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators and other issuers whom they may serve. This disclosure shall include that information reasonably sufficient to allow the Board to appreciate the significance of the relationships.

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

Debt Administration

A. Planning for Sale

1. Prior to submitting a bond resolution for approval, the Director of the Office of State and Local Finance (the "Director"), with the assistance of the financial advisor, will present to staff of the members of the Board the purpose of the financing, the estimated amount of financing, the proposed structure of the financing, the proposed method of sale for the financing, members of the proposed financing team, and an estimate of all the costs associated with the financing, and/or;

2. 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.

3. The Director, the Bond Accountant, 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

1. The Director will present a post sale report to the members of the Board describing the transaction and setting forth all the costs associated with the transaction.

2. The financial advisor will provide a closing memorandum with written instructions on transfer and flow of funds.

3. The Director will establish guidelines and procedures for tracking the flow of all bond proceeds, as defined by the Internal Revenue Code, over the life of bonds reporting to the IRS all arbitrage earnings associated with the financing and any tax liability that may be owed.

4. The Director, the Bond Accountant, bond counsel, 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.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

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

B. Investment of Proceeds

Any proceeds or other funds available will be deposited with the State Treasurer or a Trustee for investment. The proceeds must be invested pursuant to the state policy found in Section 9-1-118, Tennessee Code Annotated, and the State of Tennessee Statement of Investment Policy, which is approved each year by the Board.

C. Disclosure

In complying with U.S. Securities and Exchange Commission Rule 15c2-12, the Board will provide to EMMA certain financial information and operating data no later than January 31, of each year, and will provide notice of certain enumerated events with respect to the bonds, if material. Such material events include:

1. Principal and interest payment delinquencies

2. Nonpayment-related defaults

3. Unscheduled draws on credit enhancements

4. Substitution of credit or liquidity providers or the failure of performance on the part of a liquidity provider

5. Adverse tax opinions or events affecting the tax-exempt status of any bonds

6. Modifications to rights of bond holders

7. Bond calls

8. Defeasances

9. Matters affecting collateral

10. Rating changes

D. Generally Accepted Accounting Principles (GAAP)

The Board will prepare its financial reports in accordance with the standard accounting practices adopted by the Governmental Accounting Standards Board and with the accounting policies established by the department of finance and administration when applicable.

Review of the Policy

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The Board maintains the right to modify these guidelines and may make exceptions to any of them at any time to the extent that the execution of such debt achieves the Board's goals.

This policy will be reviewed by the Board no less frequently that annually. At that time, the Director will present any recommendations for any amendments, deletions, additions, improvement or clarification.

Adoption of the Policy

1. After a public hearing on August 24, 2011, the Board adopted the Policy on September 8, 2011, effective September 8, 2011.

2. After a public hearing on September 16, 2013, the Board adopted the amended Policy on September 16, 2013, effective September 16, 2013.

Secretary
Tennessee State Funding Board

APPENDIX A

ANNUAL REVIEW

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

October 8, 2014

Exhibit D

Summary of the Results of the State of Tennessee's General Obligation Bond Sale 2014 Series A 2014 Refunding Series B

- The Bonds were sold on July 16, 2014, through a negotiated sale with Morgan Stanley as the senior underwriter. BofA Merrill Lynch, Piper Jaffray and Wells Fargo Securities all served as co-managers on the deal.

- The Bond Sale included the 2014 Series A fixed-rate tax-exempt bonds in the amount of $111,065,000, the proceeds of which will provide for the retirement at maturity a portion of the State's outstanding general obligation commercial paper and will fund certain capital projects.

- The Bond Sale included the 2014 Refunding Series B tax-exempt bonds in the amount of $79,160,000, the proceeds of which will provide for the refunding of certain outstanding general obligation bonds of the State.

- The True Interest Cost ("TIC") for the Series A Bonds was 2.943% and for the Refunding Series B Bonds was 3.052%.

- An original issue premium was generated from the Series A Bonds in the amount of $19,230,254.55.

- The net present value of savings generated from the Refunding Series B Bonds was approximately $6.9 million.

Exhibit E

Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2015

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY2016	$ 151,825,000	$ 73,795,225	$ 225,620,225
FY2017	145,965,000	67,247,982	213,212,982
FY2018	137,270,000	60,497,132	197,767,132
FY2019	127,975,000	54,684,105	182,659,105
FY2020	124,960,000	49,230,000	174,190,000
FY2021	118,140,000	43,862,963	162,002,963
FY2022	118,310,000	38,566,988	156,876,988
FY2023	110,615,000	33,455,886	144,070,886
FY2024	110,350,000	28,907,473	139,257,473
FY2025	101,740,000	24,849,282	126,589,282
FY2026	100,955,000	20,626,670	121,581,670
FY2027	92,800,000	16,725,233	109,525,233
FY2028	88,645,000	13,187,359	101,832,359
FY2029	81,665,000	9,359,504	91,024,504
FY2030	56,290,000	5,894,181	62,184,181
FY 2031	45,095,000	3,724,871	48,819,871
FY 2032	35,765,000	1,823,905	37,588,905
FY 2033	12,550,000	798,750	13,348,750
FY 2034	5,550,000	416,250	5,966,250
FY 2035	5,550,000	138,750	5,688,750
	$ 1,772,015,000	$ 547,792,510	$ 2,319,807,510