

State of Tennessee Indebtedness Report

December 31, 2014



Justin P. Wilson, Comptroller



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

STATE CAPITOL

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Justin P. Wilson
Comptroller

April 10, 2015

The Honorable Bill Haslam, Governor
The Honorable Ron Ramsey, Speaker of the Senate
The Honorable Beth Harwell, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide information on the four state debt issuers: The State Funding Board for the Tennessee General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report reflects the outstanding indebtedness both at June 30, 2014 and at December 31, 2014. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), the Energy Efficient Schools Initiative (EESI) and the State Infrastructure Fund (SIF).

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

Justin P. Wilson
Comptroller of the Treasury

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State of Tennessee Indebtedness Report

(Unaudited)

	<u>a/o June 30, 2014</u>		<u>a/o December 31, 2014</u>		<u>Variance</u> <u>Increase (Decrease)</u>	
	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>
<u>Long-term General Obligation Debt</u>						
General Obligation Bonds Outstanding	1,930	\$ 1,817,950,000	1,975	\$ 1,828,850,000	45	\$ 10,900,000
<u>General Obligation Commercial Paper</u>						
Tax-Exempt	163	\$ 298,367,000	132	\$ 217,487,000	(31)	\$ (80,880,000)
Taxable	3	25,999,000	3	24,599,000	-	(1,400,000)
Total Commercial Paper Outstanding	166	\$ 324,366,000	135	\$ 242,086,000	(31)	\$ (82,280,000)
<u>Tennessee Local Development Authority</u>						
Bonds Issued and Outstanding	31	\$ 5,520,000	31	\$ 5,520,000	-	\$ -
<u>Tennessee State School Bond Authority</u>						
Higher Education Facilities Program						
Bonds Outstanding	179	\$ 1,262,110,000	183	\$ 1,300,325,000	4	\$ 38,215,000
Revolving Credit Facility Outstanding:						
Tax-Exempt	26	\$ 90,500,000	29	\$ 98,896,950	3	\$ 8,396,950
Taxable	12	67,084,392	8	21,754,425	(4)	(45,329,967)
Total Revolving Credit Facility	38	\$ 157,584,392	37	\$ 120,651,375	(1)	\$ (36,933,017)
Qualified Zone Academy Bond Program						
Bonds Outstanding	16	\$ 43,920,000	16	\$ 43,920,000	-	\$ -
Qualified School Construction Bonds						
Series 2009	13	\$ 177,000,000	13	\$ 177,000,000	-	\$ -
Series 2010	15	\$ 212,440,000	15	\$ 212,440,000	-	\$ -
<u>Tennessee Housing Development Agency</u>						
Mortgage Loans/Principal Outstanding	18,859	\$ 1,436,515,000	18,814	\$ 1,447,145,000	(45)	\$ 10,630,000
("NIBP") (2009 Bond Resolution)	5,253	526,475,000	4,964	490,340,000	(289)	(36,135,000)
Mortgage Loans / Principal Outstanding	24,112	\$ 1,962,990,000	23,778	\$ 1,937,485,000	(334)	\$ (25,505,000)
Total State Indebtedness:	a/o 06/30/2014	\$ 5,963,880,392	a/o 12/31/2014	\$ 5,868,277,375		\$ (95,603,017)

Authorized/Unissued Debt

(Unaudited)

	<u>a/o June 30, 2014</u>	<u>a/o December 31, 2014</u>	<u>Variance</u> <u>Increase (Decrease)</u>
General Obligation ¹⁾	\$ 1,823,065,204	\$ 1,595,785,204	\$ (227,280,000)
Tennessee Local Development Authority (TLDA)	\$ 305,000,000 ²⁾	\$ 305,000,000 ²⁾	\$ -
TLDA Capital Projects	\$ 75,000,000	\$ 75,000,000	\$ -
Tennessee Housing Development Agency (THDA)	\$ 967,010,000 ²⁾	\$ 992,515,000 ²⁾	\$ 25,505,000
Tennessee State School Bond Authority (TSSBA)	\$ 553,410,132 ³⁾	\$ 613,147,157 ³⁾	\$ 59,737,025
Total Authorized/Unissued Debt	<u>\$ 3,723,485,336</u>	<u>\$ 3,581,447,361</u>	<u>\$ (142,037,975)</u>

Footnotes:

1)	Beg. Authorized/Unissued:	\$ 1,848,505,268		\$ 1,823,065,204		\$ (25,440,064)
	Less: Canceled 2013/2014	(193,040,064)		-		\$ 193,040,064
	New Bond Authorization 2014-15	167,600,000		-		\$ (167,600,000)
	Less: Canceled 2014/2015	-		(116,215,000)		\$ (116,215,000)
	Less: Bonds Issued 2014 Series A	-		(111,065,000)		\$ (111,065,000)
	Authorized/Unissued a/o 06/30/2014:	<u>\$ 1,823,065,204</u>	A/U a/o 12/31/14:	<u>\$ 1,595,785,204</u>		<u>\$ (227,280,000)</u>
	TDOT Bond Authorization:	\$ 729,500,000		\$ 645,000,000		\$ (84,500,000)
	TDOT Bond Authorization - Bridges	175,200,000		175,200,000		\$ -
	Capital Projects Bond Authorization:	918,365,204		775,585,204		\$ (142,780,000)
		<u>\$ 1,823,065,204</u>		<u>\$ 1,595,785,204</u>		<u>\$ (227,280,000)</u>

2) Amount indicated is the unissued remaining statutory debt limit.

3) Amount indicated is capital projects approved by the TSSBA and the State Building Commission.

General Obligation Debt Information

General Obligation Debt

The State Funding Board debt management policy is located at:

<http://www.comptroller.tn.gov/sl/policy.asp>

- Bond principal matured in the amount of \$95,190,000
- The 2014 Series A bonds were issued in the amount of \$111,065,000
- The 2014 Series B Refunding bonds were issued in the amount of \$79,160,000
- General obligation bonds totaling a principal amount of \$84,135,000 were refunded
- Commercial paper outstanding decreased by \$82,280,000 and was comprised of one new issuance totaling \$25,000,000 and repayments totaling \$107,280,000.
- Bond authorization was canceled in the amount of \$116,215,000

Legislation Enacted in 2014

The General Assembly passed legislation that demonstrated Tennessee's commitment to help local governments to keep their financial houses in order.

Public Chapter 853 – No state funds to be expended for public indebtedness of municipalities

To prohibit expenditure of state funds to pay the public indebtedness of any municipality; specifies that this prohibition does not preclude any municipality from utilizing its allocation of state-share taxes for the purpose of paying its public indebtedness.

Public Chapter 990 – Enacts the “Public Employee Defined Benefit Financial Security Act of 2014”

To establish funding requirements for a political subdivision's defined benefit pension plan that does not participate in the Tennessee Consolidated Retirement System (“TCRS”). Current law requires a political subdivision that participates in the TCRS to pay 100% of the actuarially determined contribution (“ADC”). This new law extends the same requirement to defined benefit pension plans for political subdivisions that do not participate in the TCRS.

Public Chapter 766 – Balloon indebtedness to be approved by the Comptroller of the Treasury

To require local governments that propose to issue “balloon indebtedness” to submit first a plan of balloon indebtedness to the Comptroller of the Treasury for approval.

Other Information on Outstanding Debt

Tennessee Local Development Authority (TLDA)

The TLDA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

Tennessee State School Bond Authority (TSSBA)

The TSSBA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

Higher Education Facilities Program

- Bond principal in the amount of \$13,075,000 matured during this period.
- On August 27, 2014, the Authority issued \$132,450,000 Series A (Federally Taxable) and \$212,200,000 2014 Refunding Series B Bonds.
- The taxable portion of the Revolving Credit Facility loans outstanding decreased by \$45 million due to the repayment with proceeds from the 2014 Series A Bonds.

Qualified Zone Academy Bond Program (QZAB)

- This program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997.
- Security for the QZABs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Education Program Facilities Bonds.
- As of December 31, 2014, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$30,292,108.

Qualified School Construction Bond Program (QSCB)

- This program is a federal tax credit (2009)/federal subsidy (2010) program created under the American Recovery and Reinvestment Act (ARRA) of 2009.
- Security for the QSCBs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes, and there is no cross default to the Higher Education Program Facilities Bonds.
- As of December 31, 2014, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$92,186,237.

Tennessee Housing Development Agency (THDA)

The THDA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

- Bond principal outstanding decreased by \$25,505,000 during this time period.
 - New bonds were issued totaling \$150,000,000.
 - Bond principal matured in the amount of \$175,505,000, of which \$36,135,000 were part of the NIBP program.
- THDA's 2013 bond resolution eliminated the moral obligation pledge of the State for THDA bonds.
- Of the \$1,937,485,000 of bonds outstanding, bonds in the amount of \$1,094,875,000, or 56.5%, are not secured by the moral obligation of the state, and bonds in the amount of \$842,610,000, or 43.5%, are secured by the moral obligation of the State.

Bond Ratings on Outstanding Debt

BOND RATINGS

	<u>Fitch</u>	<u>Moody's</u>	<u>S & P</u>
State of Tennessee	AAA	Aaa	AA+
Tennessee Local Development Authority	AA	Aa3	AA+ ¹
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 *	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	AA+	Aa1 *	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 *	AA
THDA 1974 Resolution	n/a	Aa2	AA
THDA 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (NIBP)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

*** Explanation of Moody's Investor Services ratings:**

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

¹ The Standard & Poor's rating for the Tennessee Local Development Authority was downgraded to AA+ from AAA on August 31, 2012 due to the diminishing size of the program.

Annual Debt Service for State of Tennessee General Obligation Bonds

as of December 31, 2014

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY2015	56,835,000	39,538,977	96,373,977
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
	\$ 1,828,850,000	\$ 587,331,486	\$ 2,416,181,486

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>a/o June 30, 2014</u>		<u>a/o December 31, 2014</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>
<u>State Revolving Fund Loan Program</u>						
Clean Water (Sewerage)						
Principal Outstanding	163	\$ 362,525,337	166	\$ 383,317,801	3	\$ 20,792,464
Drinking Water						
Principal Outstanding	89	\$ 90,488,802	91	\$ 90,935,277	2	\$ 446,475
<u>Energy Efficient Schools Initiative (EESI)</u>	51	\$ 55,693,248	51	\$ 52,239,075	-	\$ (3,454,173)
<u>State Infrastructure Fund (SIF)</u>	1	\$ 107,715	1	\$ 116,506	-	\$ 8,791

Loan Programs Information

State Revolving Fund Loan Program

The State administers the State Revolving Loan Funds Programs for the Local Governments. The programs currently have no outstanding indebtedness in the capital marketplace. The programs are funded by federal and state capitalization grants. Therefore, the dollar amount of loans managed for the State Revolving Loan Programs is not included in the Total State Indebtedness.

Clean Water State Revolving Fund (CWSRF)

- During this period, the loan balance increased \$20,792,464. There were six new loans added to the program. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.
- One loan was prepaid in the amount of \$204,539.

Drinking Water State Revolving Fund (DWSRF)

- During this period, the loan balance increased \$446,475. Three new loans were added to the program, and one loan increase was approved. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.
- One loan was prepaid in the amount of \$418,180.

Energy Efficient Schools Initiative (EESI)

The Energy Efficient Schools Initiative (EESI) was established by the Tennessee General Assembly in 2008 with \$90 million. Over \$87 million has been approved for projects to improve the energy efficiency in Tennessee's public K-12 schools. Purposes of the Energy Efficient Schools Council, also created by this legislation, include providing grants and loans for capital outlay projects and establish and support energy management programs. The enabling legislation also created a twelve member council to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs.

- From June 30, 2014 to December 31, 2014, the loan balance decrease was comprised of approximately \$3 million in loan repayments

State Infrastructure Fund (SIF)

The State Infrastructure Program provides assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

- One disbursement was made from June 30, 2014 to December 31, 2014.

Board Membership

State Funding Board

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

Tennessee Local Development Authority

Governor Bill Haslam, Chairman
Secretary of State Tre Hargett, Vice-Chairman
Comptroller Justin P. Wilson, Secretary
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Mr. Pat Wolfe, Washington County, Tennessee, Senate Appointee
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

Tennessee State School Bond Authority

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Dr. Joseph DiPietro, President, University of Tennessee
John G. Morgan, Chancellor, Tennessee Board of Regents

Bond Finance Committee

Tennessee Housing Development Agency

Brian Bills, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration

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Donna Kaukas

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