Tennessee State Funding Board

Debt Management Policy

Prepared by
Office of State and Local Finance

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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