

State of Tennessee Indebtedness Report

June 30, 2014



Justin P. Wilson, Comptroller



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

STATE CAPITOL

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Justin P. Wilson
Comptroller

December 9, 2014

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 December 31, 2013 and at June 30, 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).

The long-term general obligation indebtedness of the state decreased in the last fiscal year.

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

C: Senate Finance, Ways and Means Committee
Randy McNally, Chair
Bo Watson, 1st Vice-Chair
Doug Overbey, 2nd Vice-Chair

House Finance, Ways and Means Committee
Charles Sargent, Chair
David Alexander, Vice-Chair
Mike Harrison, Finance Subcommittee Chair

Fiscal Review Committee
Senator Bill Ketron, Chair
Representative Mark White, Vice-Chair
Jessica Himes, Local Government Analyst

Office of Legislative Budget Analysis
Rick Nicholson, Senate Budget Analysis Director
Cathy Higgins, House Budget Analysis Director

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State of Tennessee Indebtedness Report

(Unaudited)

	<u>a/o December 31, 2013</u>		<u>a/o June 30, 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	\$ 1,882,885,000	1,930	1,817,950,000	-	\$ (64,935,000)
<u>General Obligation Commercial Paper</u>						
Tax-Exempt	134	\$ 198,367,000	163	298,367,000	29	\$ 100,000,000
Taxable	3	25,999,000	3	25,999,000	-	-
Total Commercial Paper outstanding	137	\$ 224,366,000	166	\$ 324,366,000	29	\$ 100,000,000
<u>Tennessee Local Development Authority</u>						
Bonds issued and outstanding	35	\$ 6,585,000	31	\$ 5,520,000	(4)	\$ (1,065,000)
<u>Tennessee State School Bond Authority</u>						
Higher Education Facilities Program						
Bonds outstanding	192	\$ 1,310,755,000	179	\$ 1,262,110,000	(13)	\$ (48,645,000)
Revolving Credit Facility outstanding:						
Tax-Exempt	26	\$ 82,100,000	26	90,500,000	-	\$ 8,400,000
Taxable	9	35,961,000	12	67,084,392	3	31,123,392
Total Revolving Credit Facility	35	\$ 118,061,000	38	\$ 157,584,392	3	\$ 39,523,392
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	18,240	\$ 1,381,560,000	18,859	1,436,515,000	619	\$ 54,955,000
("NIBP") (2009 Bond Resolution)	5,465	\$ 544,505,000	5,253	526,475,000	(212)	(18,030,000)
Mortgage Loans / Principal Outstanding	23,705	\$ 1,926,065,000	24,112	\$ 1,962,990,000	407	\$ 36,925,000
Total State Indebtedness:	a/o 12/31/13	\$ 5,902,077,000	a/o 06/30/2014	\$ 5,963,880,392		\$ 61,803,392

Authorized/Unissued Debt

(Unaudited)

	<u>a/o December 31, 2013</u>	<u>a/o June 30, 2014</u>	<u>Variance</u> <u>Increase (Decrease)</u>
General Obligation ¹⁾	\$ 1,848,505,268	1,957,465,204	\$ 108,959,936
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)	\$ 1,125,235,000 ²⁾	967,010,000 ²⁾	\$ (158,225,000)
Tennessee State School Bond Authority (TSSBA)	\$ 396,086,149 ³⁾	553,410,132 ³⁾	\$ 157,323,983
Total Authorized/Unissued Debt	<u>\$ 3,749,826,417</u>	<u>\$ 3,857,885,336</u>	<u>\$ 108,059,919</u>

Footnotes:

1)	Beg. Authorized/Unissued:	\$ 1,966,227,802	1,848,505,268	\$ (117,722,534)
	Less: Canceled 2012/2013	-	-	\$ -
	New Bond Authorization 2013-14	-	167,600,000	\$ 167,600,000
	Less: Canceled 2013/2014	(117,722,534)	(58,640,064)	\$ 59,082,470
	Less: Bonds Issued 2012 Series B	-	-	\$ -
	Authorized/Unissued a/o 12/31/13:	<u>\$ 1,848,505,268</u>	<u>\$ 1,957,465,204</u>	<u>\$ 108,959,936</u>
			A/U a/o 06/30/2014:	
	TDOT Bond Authorization:	\$ 646,000,000	\$ 729,500,000	\$ 83,500,000
	TDOT Bond Authorization - Bridges	233,400,000	175,200,000	\$ (58,200,000)
	Capital Projects Bond Authorization:	969,105,268	1,052,765,204	\$ 83,659,936
		<u>\$ 1,848,505,268</u>	<u>\$ 1,957,465,204</u>	<u>\$ 108,959,936</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>

- Principal of bonds matured in the amount of \$64,935,000
- Commercial paper outstanding increased by \$100 million and was comprised of one new issuance
- Bond authorization was canceled in the amount of \$58,640,064

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 \$48,645,000 matured during this time period.
- On March 20, 2014, the Authority terminated the Commercial Paper Program and replaced it with a Revolving Credit Facility with a maximum capacity of \$300 million.
- Revolving Credit Facility loans outstanding increased by \$20 million for payment of construction expenditures.

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 June 30, 2014, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$24,068,175.

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 June 30, 2014, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$80,132,658.

Tennessee Housing Development Agency (THDA)

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

- Bond principal outstanding increased by \$36,925,000 during this time period.
 - New bonds were issued totaling \$150,000,000.
 - Bond principal matured in the amount of \$113,075,000, of which \$18,030,000 were part of the NIBP program.
- THDA's 2013 bond resolution eliminated the moral obligation pledge of the State for THDA bonds.
- Of the \$1,962,990,000 of bonds outstanding, bonds in the amount of \$997,675,000, or 50.8%, are not secured by the moral obligation of the state, and bonds in the amount of \$965,315,000, or 49.2%, 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

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY2015	152,025,000	75,376,398	227,401,398
FY2016	146,270,000	68,737,850	215,007,850
FY2017	140,415,000	62,384,957	202,799,957
FY2018	131,720,000	55,828,357	187,548,357
FY2019	122,425,000	50,237,330	172,662,330
FY2020	119,405,000	45,033,100	164,438,100
FY2021	112,585,000	39,943,813	152,528,813
FY2022	112,755,000	34,925,588	147,680,588
FY2023	105,060,000	30,092,236	135,152,236
FY2024	104,795,000	25,821,573	130,616,573
FY2025	96,185,000	22,041,132	118,226,132
FY2026	96,460,000	18,388,233	114,848,233
FY2027	88,325,000	14,750,358	103,075,358
FY2028	84,195,000	11,467,059	95,662,059
FY2029	77,240,000	7,892,529	85,132,529
FY2030	51,335,000	4,677,431	56,012,431
FY 2031	39,540,000	2,475,996	42,015,996
FY 2032	30,215,000	852,655	31,067,655
FY 2033	7,000,000	105,000	7,105,000
	\$ 1,817,950,000	\$ 571,031,595	\$ 2,388,981,595

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>a/o December 31, 2013</u>		<u>a/o June 30, 2014</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>
<u>State Revolving Fund Loan Program</u>						
Clean Water (Sewerage)						
Principal Outstanding	171	\$ 352,102,873	163	362,525,337	(8)	\$ 10,422,464
Drinking Water						
Principal Outstanding	83	\$ 91,316,820	89	90,488,802	6	\$ (828,018)
<u>Energy Efficient Schools Initiative (EESI)</u>	51	\$ 58,634,706	51	\$ 55,693,248	-	\$ (2,941,458)
<u>State Infrastructure Fund (SIF)</u>	1	\$ 107,715	1	\$ 107,715	-	\$ -

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)

- The loan balance increased. There were 7 new loans added and 1 loan increase. There were 5 loan prepayments totaling \$5.1 million and 1 loan partial prepayment totaling \$1.5 million. The debt outstanding will increase over time as the funds are drawn to pay project costs.

Drinking Water State Revolving Fund (DWSRF)

- The loan balance decrease was comprised of 1 loan prepayment totaling \$501,390. There were 9 new loans added to the program. The debt outstanding will increase over time as the funds are drawn to pay project costs.

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 (Council – see below) to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs.

- From December 31, 2013, to June 30, 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.

- No disbursements were made from December 31, 2013, to June 30, 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
Ms. Betsy Crossley, Brentwood, 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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Brittany Evans
Jacqueline Felland
Donna Kaukas

Cindy Liddell
Steve Osborne
Kathy Palmer
Ron Queen, CPA
Sharon Schmucker, CPA
Alicia Scott

Tennessee Housing Development Agency

Trent Ridley, Chief Financial Officer
Wayne Beard, Director of Finance