

State of Tennessee Indebtedness Report



June 30, 2013



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

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Justin P. Wilson
Comptroller

August 19, 2013

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, 2012 and at June 30, 2013. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. This year, we have included the annual debt service schedule for the general obligation debt. This schedule demonstrates Tennessee's commitment to the rapid repayment of debt. 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 are grateful to the General Assembly for the legislative changes they made during this year's session to ensure the financial integrity of the State of Tennessee. These changes will ensure long-term financial sustainability for the State of Tennessee. We anticipate that this legislation that reforms GO debt and the pension plan will be recognized nationally as models for best practices in the future.

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 December 31, 2012</u>		<u>a/o June 30, 2013</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>Long-term General Obligation debt</u>						
General Obligation Bonds Outstanding	1,930	\$ 2,041,930,000	1,930	\$ 1,978,410,000	-	\$ (63,520,000)
<u>General Obligation Commercial Paper</u>						
Tax-Exempt	114	\$ 146,000,000	123	\$ 187,747,000	9	\$ 41,747,000
Taxable	3	28,799,000	3	27,399,000	-	\$ (1,400,000)
Total Commercial Paper outstanding	117	\$ 174,799,000	126	\$ 215,146,000	9	\$ 40,347,000
<u>Tennessee Local Development Authority</u>						
Bonds issued and outstanding	35	\$ 7,620,000	35	\$ 6,585,000	-	\$ (1,035,000)
<u>Tennessee State School Bond Authority</u>						
Higher Education Facilities Program						
Bonds outstanding	199	\$ 1,221,990,000	181	\$ 1,168,120,000	(18)	\$ (53,870,000)
Commercial Paper outstanding:						
Tax-Exempt	35	\$ 114,468,000	35	\$ 180,668,000	-	\$ 66,200,000
Taxable	6	10,861,000	8	28,761,000	2	\$ 17,900,000
Total Commercial Paper	41	\$ 125,329,000	43	\$ 209,429,000	2	\$ 84,100,000
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	20,017	\$ 1,438,155,000	19,568	\$ 1,523,690,000	(449)	\$ 85,535,000
("NIBP") (2009 Bond Resolution)	5,971	\$ 611,140,000	5,697	\$ 593,215,000	(274)	\$ (17,925,000)
Mortgage Loans / Principal Outstanding	25,988	\$ 2,049,295,000	25,265	\$ 2,116,905,000	(723)	\$ 67,610,000
Total State Indebtedness:	a/o 12/31/12:	\$ 6,054,323,000	a/o 06/30/13	\$ 6,127,955,000		\$ 73,632,000

Authorized/Unissued Debt

(Unaudited)

	<u>a/o December 31, 2012</u>	<u>a/o June 30, 2013</u>	<u>Variance Increase (Decrease)</u>
General Obligation ¹⁾	\$ 1,747,306,223	\$ 1,995,327,802	\$ 248,021,579
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)	\$ 923,705,000 ²⁾	\$ 813,095,000 ²⁾	\$ (110,610,000)
Tennessee State School Bond Authority (TSSBA)	\$ 573,466,743 ³⁾	\$ 304,136,435 ³⁾	\$ (269,330,308)
Total Authorized/Unissued Debt	<u>\$ 3,624,477,966</u>	<u>\$ 3,492,559,237</u>	<u>\$ (131,918,729)</u>

Footnotes:

1)	Beg. Authorized/Unissued:	\$ 1,995,906,223	\$ 1,747,306,223	
	Less: Canceled 2012/2013		(17,978,421)	
	New Bond Authorization 2013-14		266,000,000	
	Less: Canceled 2012/2013	\$ (108,600,000)		
	Less: Bonds Issued 2012 Series B	(140,000,000)		
	Authorized/Unissued a/o 12/31/12:	<u>\$ 1,747,306,223</u>	<u>\$ 1,995,327,802</u>	<u>\$ 248,021,579</u>
			A/U a/o 6/30/13:	
	TDOT Bond Authorization:	\$ 669,600,000	\$ 750,600,000	
	TDOT Bond Authorization - Bridges	262,500,000	262,500,000	
	Capital Projects Bond Authorization:	815,206,223	982,227,802	
		<u>\$ 1,747,306,223</u>	<u>\$ 1,995,327,802</u>	<u>\$ 248,021,579</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 amount of bonds matured in the amount of \$63,520,000
- Commercial paper outstanding increased by \$40.3 million and was comprised of new issuance totaling \$70 million and repayment totaling \$29.7 million
- Bond authorization was canceled in the amount of \$17,978,421

Legislation Enacted in 2013

The General Assembly passed legislation that demonstrated Tennessee's commitment to keep its financial house in order. The effects of the changes will not be immediate; however, the actions will ensure long-term financial sustainability for the State.

Public Chapter 176 - General Obligation Bond security pledge reform

To remove any ambiguity of the state's GO pledge. It 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.

Public Chapter 296 - Pension plan reform

To limit the unfunded pension liability to those employees hired prior to July 1, 2014. Commencing June 30, 2014, new employees will participate in a new pension plan that will be funded on a cash basis each year. The state's liability on this new plan is limited.

Public Chapter 175 - Reserve for revenue fluctuations

To provide for more sufficient reserves, the legislature increased the state's funding goal for the rainy day fund from 5% to 8% of state tax revenues allocated to the general fund and education fund.

Public Chapter 174 - TSSBA - redefinition of "institution"

To redefine the term "institution" and strengthen the credit position of current and future bondholders. It also clarified and expanded the amount of appropriation subject to the intercept and increased debt service coverage and will provide additional debt capacity for the TSSBA.

Public Chapter 453 – State appropriations

To increase the state's rainy day fund to \$100 million.

THDA Bond Resolution

THDA's 2013 bond resolution eliminates the "so-called" moral obligation pledge of the State for THDA bonds.

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>

- Bond principal in the amount of \$1,035,000 matured during this time period.

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 \$53,870,000 matured during this time period.
- Commercial paper outstanding increased by \$84.1 million and was comprised of new issuance totaling \$88 million and repayment totaling \$3.9 million.

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, 2013, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$24,479,243.

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, 2013, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$56,308,825.

Tennessee Housing Development Agency (THDA)

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

- A total of \$360,000,000 of the bonds issued under the 2009 Resolution was purchased by Fannie Mae and Freddie Mac pursuant to the Single Family New Issue Bond Program ("the NIBP") announced by the United States Department of the Treasury, Fannie Mae and Freddie Mac. Due to the special program requirements, a new general bond resolution (The Housing Finance Program) was drafted and approved.
- As of December 31, 2011, THDA had issued its full allotment of bonds under the NIBP program.
- Neither the full faith and credit nor the taxing power of the state, or of any political subdivision thereof is pledged for the payment of principal or interest on the Housing Finance Program bonds.
- The balance of \$2,116,095 excludes refunded bonds and notes.

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)	n/a	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
FY2014	\$ 160,460,000	\$ 82,639,017	\$ 243,099,017
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
	\$ 1,978,410,000	\$ 653,670,612	\$ 2,632,080,612

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>a/o December 31, 2012</u>		<u>a/o June 30, 2013</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	183	\$ 448,601,564	175	\$ 367,754,021	(8)	\$ (80,847,543)
Drinking Water						
Principal Outstanding	81	\$ 100,697,928	86	\$ 95,307,883	5	\$ (5,390,045)
<u>Energy Efficient Schools Initiative (EESI)</u>	51	\$ 60,385,120	51	\$ 59,268,409	-	\$ (1,116,711)
<u>State Infrastructure Fund (SIF)</u>	1	\$ 26,858	1	\$ 56,670	-	\$ 29,812

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 decrease was comprised of 15 loan prepayments totaling \$78 million. There were 15 new loans added to the program. 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 2 loan prepayments totaling \$4 million. There were 8 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, 2012, to June 30, 2013, the loan balance decreased by approximately \$1 million from 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 in February 2013, in the amount of \$29,812.

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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