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Comptroller

Tennessee State Funding Board Guidelines
Interest Rate and Forward Purchase Agreements

PREAMBLE:

The decision to enter into the Interest Rate or Forward Purchase Agreement is strictly the decision of the Governmental Entity. It is the Governmental Entity's responsibility to determine the appropriateness of the transaction, the legal authority to enter into the Agreement, and the consistency of the transaction with the Governmental Entity's adopted Debt Management Policy and Derivative Policy.

The use of these agreements and the related financial instruments should balance the Governmental Entity's primary goals of (1) reducing the cost of capital; (2) minimizing interest rate volatility; and (3) gaining flexibility in structuring and managing its debt portfolio over time.

The use of these agreements and the related financial instruments is not permitted if: (1) the rationale for using the agreement is based predominantly on speculation regarding the future direction or level of interest rates; (2) the fair market value of the transaction cannot be readily and reliably determined at all times by the Governmental Entity or its agents; (3) the transaction structure and/or terms result in a lack of liquidity and the inability to timely terminate the transaction at a market price; (4) the transaction is inconsistent with the Governmental Entity's adopted Debt Management and/or Derivative Policies.

A positive report of compliance issued under these Guidelines does not relate to or confirm the appropriateness of the transaction or the legal authority of the Governmental Entity to enter into the Interest Rate or Forward Purchase Agreement. A positive report of compliance is not an endorsement of the proposed transaction; it only indicates that the Governmental Entity has complied with the Guidelines, a statutory prerequisite to entering into a transaction. A positive report does not mitigate business, financial, market or operating risks nor does it mitigate in any way the Governmental Entity's responsibility to independently analyze the transaction and fully understand the risk associated with the transaction.

Even the simplest Interest Rate or Forward Purchase Agreement is a complex financial instrument that requires a high level of financial sophistication. It is the responsibility of the Governmental Entity and its officials to insure they possess the skill, training and knowledge to evaluate the use of an Interest Rate or Forward Purchase Agreement and to manage the use over the Agreement's duration.

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I. Background

State statutes direct the State Funding Board to establish guidelines, rules or regulations with respect to interest rate swap agreements, other interest rate hedging agreements and forward purchase agreements that may be entered into by certain local governmental entities ("Governmental Entities" or "Governmental Entity"). The Governmental Entity must request the report of the Comptroller prior to the Governing Body of the Governmental Entity adopting a resolution authorizing the agreement. State statutes require that if a Governmental Entity intends to enter into one of these agreements and submits such a request, the Comptroller is required to determine whether the proposed agreement complies with the Guidelines and to report to the Governmental Entity.

The Guidelines do not govern contracts or other agreements based on statutes other than the Forward Purchase Authorizing Statutes or the Interest Rate Authorizing Statutes, whether or not they relate to the Governmental Entity's debt.

II. Definitions

"Accountant" shall mean a professional staff member of the Governmental Entity able to independently prepare financial statements compliant with US Governmental Generally Accepted Accounting Principles. This staff member shall be responsible for preparing debt and derivatives disclosures in accordance with US Governmental Generally Accepted Accounting Principles.

"Authorizing Statutes" shall mean the Forward Purchase Authorizing Statutes and Interest Rate Authorizing Statutes, a list of which is attached as Attachment C.

"Bond Counsel" shall mean an individual or entity who has legal experience and expertise in the area of municipal finance transactions and whose sole client relationship governed by ethical rules in a transaction must strictly be only to the Governmental Entity. No waiver of any conflict of interest with respect to representations of multiple parties in the same transaction will be permitted. In the case of a conduit financing, the conduit issuer's staff, consultants and contractors (including Bond Counsel) shall not serve as the counsel to the borrower which is borrowing from or through the conduit issuer. Bond Counsel must disclose all relationships to any other transaction participant outside of the transaction. The Bond Counsel may serve also as the Governmental Entity's Swap Counsel.

"Chief Executive Officer" or "CEO" shall mean the chief elected official of the Governmental Entity, or if there is no such elected official, the chairman or presiding officer of the Governing Body of the Governmental Entity.

"Chief Financial Officer" or "CFO" shall mean the Finance Director or other comparable official of the Governmental Entity overseeing the Governmental Entity's financial management specified by either law or charter or by direction of the CEO or Governing Body. This person shall be able to understand and explain financial statements compliant with US Governmental Generally Accepted Accounting Principles. This person shall be able to understand the monitoring process and provide the Governing Body with guidance concerning

an Interest Rate Agreement transaction from the entrance decision, execution, monitoring, and termination decision to the impact on the Governmental Entity's financial condition and position.

"Comptroller" shall mean either the Comptroller, the Office of the Comptroller of the Treasury of the State of Tennessee, or the Comptroller's designee, as appropriate for the context.

"Counterparty" shall mean the party to an Interest Rate Agreement other than the Governmental Entity.

"Debt Management Report" shall mean a written debt management report of the Governmental Entity as of the end of the fiscal year.

"Debt Management Policy" shall mean a formally adopted set of policies as to the issuance of, level of, structure of, rating of, administration of and reporting on the Governmental Entity's total debt. This policy must comply with the model debt management policies developed by the State Funding Board under the authority of Tenn. Code Ann. Section 9-21-151.

"Derivative Management Report" shall mean a written derivative management report of the Governmental Entity as of the end of the fiscal year.

"Derivative Policy" shall mean a formally adopted set of policies as to the use of Interest Rate and Forward Purchase Agreements by the Governmental Entity. This policy must comply with the model derivative policies developed by the State Funding Board under the authority of Tenn. Code Ann. Section 9-21-151.

"Financial Advisor" shall mean an individual or entity that provides advisory services with experience in the area of debt transactions for issuers of municipal debt. A Financial Advisor's fiduciary duty in a transaction must strictly be only to the Governmental Entity. The Financial Advisor must disclose to the Governmental Entity all relationships to any other transaction participant outside of the transaction. In the case of a conduit financing, the conduit issuer, its staff, consultants and contractors shall not serve as the Financial Advisor to the borrower. The Financial Advisor may serve also as the Governmental Entity's Swap Advisor.

"Financial Operations" shall mean budgeted receipts and expenditures for a current or ensuing fiscal year.
"Financial Position" shall mean the assets, liabilities, and net assets or fund balances.

"Forward Purchase Agreement" shall mean an agreement providing for the purchase of bonds or other obligations of a Governmental Entity when delivery of such bonds or other obligations will occur on a date greater than ninety (90) days from the date of execution of such agreement.

"Forward Purchase Authorizing Statutes" shall mean the Tennessee legislative acts and statutes authorizing Forward Purchase Agreements in accordance with State Funding Board Guidelines as identified from time to time by the Board and attached as Appendix C.

"Forward Purchaser" shall mean the party to a Forward Purchase Agreement other than the Governmental Entity.

"Governing Body" shall mean the legislative body of the Governmental Entity.

"Governmental Entity" shall mean any governmental entity authorized to enter into an Interest Rate Agreement or Forward Purchase Agreement pursuant to an Authorizing Statute. In the case of a conduit financing, "Governmental Entity" shall include both the conduit issuer and the borrower.

"Interest Rate Agreement" shall mean an interest rate swap or exchange agreement, an agreement establishing an interest rate floor or ceiling or both and any other interest rate hedging agreement, including options to enter into or cancel such agreements, as well as the reversal or extension thereof.

"Interest Rate Authorizing Statutes" shall mean Tennessee legislative acts and statutes authorizing Interest Rate Agreements in accordance with State Funding Board Guidelines as identified from time to time by the Board and attached as Attachment C.

“Monitor” shall mean a professional staff member responsible for understanding or preparing and interpreting derivative and variable-rate debt monitoring reports and communicating the impact of changes in the derivative or underlying debt on the Governmental Entity’s financial condition and operations.

“Rating Agency” shall mean one of the following: (i) Fitch Ratings; (ii) Moody’s Investor Services or (iii) Standard & Poor's Ratings Group, a Division of The McGraw-Hill Companies, Inc. or any successor to these.

“Swap Advisor” shall mean an individual or entity that provides advisory services with experience in the area of derivative transactions for issuers of debt. A Swap Advisor’s fiduciary duty in a transaction must strictly be only to the Governmental Entity. The Swap Advisor must disclose to the Governmental Entity all relationships to any other transaction participant outside of the transaction. In the case of a conduit financing, the conduit issuer, its staff, consultants and contractors shall not serve as the Swap Advisor to the borrower. A Swap Advisor may serve also as the Governmental Entity's Financial Advisor.

“Swap Counsel” shall mean an individual or entity who has legal experience in the area of derivative transactions and whose sole client relationship governed by ethical rules in a transaction must strictly be only to the Governmental Entity. No waiver of conflict of interest with respect to representations of multiple parties in the same transaction will be permitted. In the case of a conduit financing, the conduit issuer's staff, consultants and contractors (including Swap Counsel) shall not serve as counsel to the borrower which is borrowing from or through the conduit issuer. Swap Counsel must disclose all relationships to any other transaction participant outside of the transaction. The Swap Counsel may serve also as the Bond Counsel to the transaction.

III. Procedure for Requesting a Report of Compliance

A. Form of Request

Any request for a report of compliance with these Guidelines for Interest Rate Agreements or Forward Purchase Agreements shall include such information as is required in these Guidelines. For purposes of either an Interest Rate Agreement or a Forward Purchase Agreement, if a conduit borrowing is involved, both the conduit issuer and the borrower(s) shall separately prepare and submit requests for reports of compliance and separately shall meet all requirements of these Guidelines.

Only the Governmental Entity shall prepare and only the CEO shall submit a request, whether by mail or in any other manner. A request submitted by other than the CEO will not be deemed to have been properly submitted, and the Comptroller shall immediately return the request with an explanation of the proper procedure.

The CEO and the Chief Financial Officer (CFO) shall review all requests prior to submission to the Comptroller. If neither the CEO nor the CFO is a member of the Governing Body, the Governing Body shall appoint one of its members to review the submission.

The request must supply the information required by the appropriate attached form as specified by these Guidelines, as well as any other information reasonably requested by the Comptroller. The request shall contain the actual signature of the CEO. All communications concerning the request shall be between the Comptroller and the CEO or CFO, if so designated by CEO. A public meeting of the Governing Body scheduled to approve an Interest Rate or Forward Purchase Agreement by the Governmental Entity cannot be held during the 15-day review period. If the Comptroller is informed a meeting has been scheduled to be held during the review period, the request shall not be deemed to have been received and shall be returned to the Governmental Entity.

B. Acknowledgement by Comptroller

The Comptroller will record the request on the date received and will issue a timely acknowledgment to the Governmental Entity's CEO or CFO, if so designated by CEO, indicating the date the request was received and referring to the 15-day period statutory review period. If the request is deemed incomplete after acknowledgement or at time of receipt or if the Governmental Entity is required to appear before the Comptroller as required by Section IV.A., the request will not be deemed to have been received and the Comptroller shall inform the CEO that the request was incomplete and identify the item(s) not included. The 15-day statutory review period shall not begin until the in-person appearance, if required, occurs and a complete request is received.

C. Identification of Authorizing Statute

In its request, the Governmental Entity shall identify the Forward Purchase Authorizing Statute or Interest Rate Authorizing Statute under which the request is being submitted and identify the specific type of Forward Purchase Agreement or Interest Rate Agreement for which the request is being submitted.

D. Conditions for Entering into an Interest Rate or Forward Purchase Agreement

To be eligible to enter into either an Interest Rate or a Forward Purchase Agreement, a Governmental Entity must have:

1. Debt Management Policy and Derivative Policy adopted by action of the Governmental Entity's Governing Body after a public hearing and prior to the submission of a request under these Guidelines:

    a. It must be the policy of the Governmental Entity to review these policies at least biennially and upon any change or vacancy in the positions of CEO or CFO.

    b. Copies of the above policies must be included with a request for a Report of Compliance and along with a statement describing how the proposed transaction complies with such policies;

2. Financial statements prepared in compliance with US Governmental Generally Accepted Accounting Principles with an unqualified auditor's opinion (shown by most recent two fiscal years prior to the request);

3. Made a presentation to the Governmental Entity's Governing Body explaining with regard to a proposed Agreement each of the following risks and the efforts to be taken to mitigate the risk:

    a. "Interest Rate Risk" – The rate of interest paid may increase or decrease over time. Mitigation tactics include, but are not limited to, issuance of fixed rate debt, interest rate caps or collars, variable to fixed rate swaps, or forward purchase agreements.

    b. "Counterparty Credit Risk" – The risk that the counterparty to the Agreement (or the Forward Purchaser in the case of a Forward Purchase Agreement) does not perform pursuant to the terms of the agreement. Mitigation tactics include but are not limited to, limiting the Governmental Entity's exposure to an individual counterparty, minimum rating requirements for counterparties, or mandatory collateral requirements in case of downgrade.

    c. "Tax Risk" – The risk associated with a rise in tax-exempt interest rates relative to taxable interest rates as a result of a change in the Federal Tax Code, which in a synthetic fixed rate structure would cause a shortfall in the amount received by the Governmental Entity on the variable receipt leg of an

Agreement being less than the amount paid on the associated variable rate debt. Mitigation tactics include, but are not limited to, issuance of fixed rate debt, use of tax-exempt index to determine swap payments, or basis swap.

d. "Termination Risk" – The risk that a swap could be terminated and a market based termination payment required. Mitigation tactics include but are not limited to, issuance of fixed or variable rate debt in the cash market, progressive budgeting for potential termination payments, or include a early termination option at par in the original Agreement. As most termination risks result from credit events of the Governmental Entity, consideration should be given to the negotiation of the triggers for early termination in the Agreement, which should be limited as much as possible to credit rating based events and be kept as low and remote as possible. Good fiscal management of the Governmental Entity will then provide the best possible mitigation of Termination Risk.

e. "Liquidity/Remarketing Risk" – The risk that holders of variable rate bonds exercise their "put" option to tender their bonds back to the Governmental Entity and the Remarketing Agent is unable to immediately remarket the bonds and the Governmental Entity is forced to purchase the bonds and the risk that the price or availability of liquidity is higher or less available than originally assumed. Mitigation tactics include, but are not limited to, limit the amount of variable rate and synthetic fixed rate debt outstanding, purchase a liquidity facility from a highly rated provider or provide self-liquidity with surplus funds.

f. "Liquidity/Rollover Risk" – The two related risks associated with a financing where the term of the bonds exceeds the term of the original liquidity facility. At the expiration of the original liquidity facility the Governmental Entity may (i) experience higher fees for a new facility and/or (ii) not be able to acquire a new facility because of market conditions at the time. Mitigation tactics include, but are not limited to, the use of self-liquidity, longer term liquidity facilities or shorter termed debt.

g. "Basis Risk" – The risk in a synthetic fixed rate structure of a shortfall in the amount received by the Governmental Entity on the variable receipt leg of an Interest Rate Agreement compared to the rate paid on the associated variable rate debt and as a result the Governmental Entity's debt service payments will increase. Mitigation tactics include, but are not limited to, carefully match the formulas for making and receiving payments, i.e. use SIFMA based vs. LIBOR based payment schedules to hedge tax-exempt variable rate debt.

h. "Amortization Risk" – The risk the notional amount of an Interest Rate Agreement could become mismatched versus the amortization of a particular series of underlying bonds as a result of refundings or early principal payments. Mitigation tactics include, but are not limited to, extraordinary

mandatory par call option for the swap in case of a prepayment of the bonds or early par call option.

i. "Operational Risk" – The risk the Governmental Entity may not have the adequate systems, policies, or staff to ensure timely and accurate cash flow exchanges and/or compliance with collateral and other provisions of the Agreement and therefore cause a termination of the Agreement and trigger the associated termination payment or cause the Agreement to be under-collateralized. Mitigation tactics include, but are not limited to, outside training of staff, contract third-party administration of all Agreements, or limit the size and complexity of such agreements to something the Governmental Entity can comfortably manage

4. Have a Financial Advisor and Bond Counsel (compliant with Section H on Conflicts).

Additionally, in order to be eligible to request a Report of Compliance, a Governmental Entity must agree to:

1. comply with the reporting requirements of Section G;

2. comply with the conflict prohibitions contained in Section H; and

3. provide adequate public notice of the submission of a request for compliance.

E. Report of Compliance by Comptroller

After reviewing the request, the Comptroller shall issue a report, referencing the Forward Purchase Authorizing Statute and/or the Interest Rate Authorizing Statute, stating that the request by the Governmental Entity substantially complies with these Guidelines. The Comptroller's Report of Compliance, a copy of the request submitted by the CEO, and the following statement must be presented to the Governing Body at the time of adoption of the resolution authorizing such Agreement and must be included in the record of the meeting:

> **"The Report of the Comptroller relates only to substantial compliance with the State Funding Board Guidelines at the time of the request; the Report is not an endorsement of the transaction; and the Report does not relate to the appropriateness of the transaction or the legal authority of the Governmental Entity to enter into the Agreement."**

If the request does not comply with these Guidelines, the report shall identify the areas of non-compliance. A new request with any areas of non-compliance corrected by the Governmental Entity may be submitted and a new 15-day period for the Comptroller to review the request shall commence on the date of receipt of the complete request.

F. Appeals Process

If the report of the Comptroller states that the request does not comply with these Guidelines, then the Governmental Entity may file a written request for appeal to the Assistant Secretary of the State Funding Board in the Office of the Comptroller of the Treasury. Such request shall specify in detail the basis on which the Governmental Entity believes a report of compliance is justified. A meeting of the State Funding Board shall be held to consider the written appeal request within 30-days of receipt of the appeal request, or as soon thereafter as a quorum can be achieved.

G. Reporting

The Governmental Entity shall file the following information both with the Governing Body and with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system, or as indicated:

1. Execution – Upon entering into an Interest Rate Agreement, the Governmental Entity shall report in accordance with the requirements of Tenn. Code Ann. Section 9-21-151 no later than 45-days after the execution of the Agreement. In addition, a copy of the ISDA Master Agreement (including the Schedule to the Master and Credit Support Annex) with a memo identifying the transaction and the reasons for executing it shall be filed with the Governing Body. The Governmental Entity shall maintain a permanent copy of this report containing the memo and Agreement.

2. Option – Upon the exercise of any option by the Governmental Entity or its Counterparty, the Governmental Entity shall file a report no later than 15-days after the exercise of the option. This report will detail the reasons for executing the option, the details of the transaction including all costs related to exercising the option and the impact on the Governmental Entity's financial position and operations.

3. Material Events – Upon the occurrence of any of the following as they relate to the Agreement or the related indebtedness, the Governmental Entity shall within five (5) business days of the event (or of the date on which the Governmental Entity becomes aware of the event) report:

    a. Vacancy or change in the position or role of Monitor or CEO;

    b. Downgrade in the rating of any party to the Agreement or transaction;

    c. Default in the performance of any party to the Agreement or the transaction, including non-payment related defaults;

    d. Principal and interest payment delinquencies;

    e. Unscheduled draws on debt service reserves reflecting financial difficulties;

    f. Unscheduled draws on credit enhancements reflecting financial difficulties;

    g. Substitution of credit or liquidity providers, or their failure to perform;

h. Adverse tax opinions or events affecting the tax-exempt status of the indebtedness;

i. Modifications to rights of securities holders;

j. Bond calls;

k. Defeasances; refunding; termination;

l. Release, substitution, or sale of property securing repayment of the indebtedness;

m. Changes in the formula used for the payments Interest Rate Agreement; and

n. Failure to provide annual financial information as required by these Guidelines, transaction documents, or by law.

4. Annual – The Governmental Entity shall submit annually:

   a. Debt and Derivative Management Reports as defined in these Guidelines, by January 15 of each year;

   b. Annual Operating and Capital Budget in the manner of Tenn. Code Ann. Section 9-21-403 by August 31 of each year; and

   c. Audited Annual Financial Statements within 195 days of the close of each fiscal year.

5. Termination – If the Governmental Entity terminates an Interest Rate Agreement or Forward Purchase Agreement, the Governmental Entity jointly with its Financial Advisor or Swap Advisor shall submit within 15-days a report identifying the business purpose for such termination, any payments made or received by any parties to the Agreement, any other costs, and the impact on the Governmental Entity's financial position and operations. The report must include the method, underlying assumptions, and data used in the actual calculation of the amount of such payments made or received by any parties to the Agreement, and a summary analysis of the transaction and its effectiveness.

All such reports (except for the Termination Report) shall be submitted only by the Governmental Entity's CEO.

The Comptroller may provide additional guidance concerning reporting beyond these Guidelines. The Comptroller may alter these reporting requirements to meet oversight needs and market conditions, including but not limited to requiring additional reports and altering the timing of reports. Such alterations shall be posted on the State Funding Board's or the Comptroller's website. The Governmental Entity shall be responsible for periodically viewing the website for updates on requirements.

H. Conflicts

A Governmental Entity engages external professionals to obtain expert and objective advice, as well to obtain services, regarding the Interest Rate Agreement or Forward Purchase Agreement and the related indebtedness. In order to achieve objectivity and to avoid the appearance of impropriety, the Governmental Entity shall include in its Debt Management Policy and Derivative Policy (i) whether, and under what circumstances, it will permit a firm or individual to serve in different roles in different transactions, and (ii) whether there is a lockout period between roles or transactions. In a single transaction, a Governmental Entity may allow (i) the Swap Advisor to serve as Financial Advisor or investment advisor; and (ii) the Bond Counsel to serve as Swap Counsel. However, the Advisors and Counsel may not serve in any other role or represent any other party (including a conduit issuer or a borrower) to the transaction on matters related to the transaction, whether to the Interest Rate Agreement or the Forward Delivery Agreement or to the related indebtedness, whether already outstanding or to be issued. A Governmental Entity shall require full disclosure of all existing client and business relationships between and among the professionals to the 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. Such disclosure shall also extend to any existing or known future relationships or representations that could give rise to, or the appearance of, a conflict of interest. Such information shall be reported to the Governing Body in a public meeting.

I. Failure to Meet Guidelines

Any Governmental Entity failing to meet the requirements of the Guidelines, including the reporting requirements of Paragraph G above, shall be placed on a list of Governmental Entities in noncompliance. Those Governmental Entities on the list shall be ineligible to request Reports of Compliance or to enter into any additional Interest Rate or Forward Purchase Agreements, including those for which they have previously received a positive report of compliance but have not yet executed the Agreement. The Governmental Entity may present to the State Funding Board a plan of how it will ensure future compliance with the Guidelines, and only the State Funding Board may remove the Governmental Entity from the list of noncompliance.

IV. Guidelines Specific to Interest Rate Agreements

A. Requesting a Report of Compliance for an Interest Rate Agreement

Governmental Entities meeting all of the following criteria are not required to appear before the Comptroller in person:

1. Outstanding indebtedness with an aggregate principal amount of at least $50,000,000 at the time of execution of the Interest Rate Agreement.

2. Qualifying Debt Structure of indebtedness to which Interest Rate Agreement relates:

a. minimum principal of $25,000,000 with level principal amortization, level debt service, proportional revenue coverage debt service or a debt service structure that results in an average life of the debt less than the greatest of the three above requirements; and

b. an initial construction period of no more than three years matching actual construction time.

3. Governmental Entity's required minimum number of three (3) full-time finance staff:
   a. Accountant;
   b. CFO; and
   c. Monitor.
4. Governing Body with an audit committee.
5. Capital improvement plan or capital budget adopted by the Governing Body.
6. Swap Advisor compliant with Section H above on Conflicts.

A Governmental Entity not meeting the above criteria must make an in-person presentation to the Comptroller indicating an understanding of the risks and justifying why the Governmental Entity should not be required to meet the above criteria.

B. General Interest Rate Agreement Requirements

1. The Interest Rate Agreement shall relate to a specific identifiable indebtedness of the Governmental Entity either (i) that is outstanding or (ii) that will be incurred or authorized contemporaneously with either the execution or effective date of the Interest Rate Agreement and the Agreement is contingent on the issuance of such debt.
2. The Interest Rate Agreement shall not extend beyond the life of the indebtedness.
3. The notional amount of the Interest Rate Agreement or Agreements shall not exceed the outstanding principal of the related indebtedness at any time.

The Governmental Entity shall present with the request for a Report of Compliance a copy of the presentation its CEO, or their designee, presented at a public meeting to its Governing Body analyzing how the Interest Rate Agreement is intended to accomplish its business purpose, taking into account the various risks posed by the Agreement and the underlying debt. This analysis must demonstrate the proposed transaction is in compliance with the Governmental Entity's adopted Debt Management and Derivative Policies. This analysis shall include a comparison of all alternatives considered by the Governmental Entity and the rationale for the alternative chosen. This analysis shall also include reasonable stress testing of the Interest Rate Agreement relative to the alternatives

presented based on future changes in market condition consistent with historical levels of volatility.

C. Procurement of Interest Rate Agreements

Governmental Entities may enter into an Interest Rate Agreement through negotiation with a Counterparty or through a competitive bidding process, as provided by law.

D. Form of Documentation

To document any Interest Rate Agreement, a Governmental Entity shall utilize the standard documentation prepared by the International Swaps and Derivatives Association, Inc. ("ISDA"), such as the Master Agreement, Schedule and Confirmation, with such modifications and supplements as the Governmental Entity deems necessary to accomplish the purposes of the Interest Rate Agreement and as approved by the Comptroller.

E. Risks Associated with Interest Rate Agreements

It is the responsibility of the Governmental Entity proposing to enter into an Interest Rate Agreement to understand the risks associated with such an Agreement. The Governmental Entity shall list in its request those risks it has identified as associated with the proposed Interest Rate Agreement and describe its understanding of the impact each of these risk could have upon the Governmental Entity's financial condition.

F. Standards for Counterparty Selection and Security for Financial Interest

1. Credit Criteria – To be qualified, a Counterparty or its credit support provider must have a minimum counterparty, long-term debt or claims paying rating of at least "Aa3" or "AA-" with a stable outlook by at least one of the three Rating Agencies and will have no rating lower than "A2" or "A" by any of the Rating Agencies at the time the Interest Rate Agreement is entered.

   Counterparties whose highest rating from any of the three Rating Agencies is below the double-A category, additional credit enhancement will be required in the form of either: (i) contingent credit support or enhancement by a third-party with a triple-A rating from at least one of the three Rating Agencies; (ii) posted collateral consistent with Section F.2 below; or (iii) ratings downgrade triggers that provide additional collateral or the Governmental Entity the ability to terminate the Agreement at par.

   In addition, qualified Counterparties must have a demonstrated record of successfully executing Interest Rate Agreements of similar size and scope

2. Counterparty Downgrade Provisions – All Interest Rate Agreements must provide that if the Counterparty's credit rating or that of its guarantor or credit support provider should fall below the above minimum requirements, the Counterparty must provide collateral as required by the credit support annex. If the Counterparty fails to maintain its rating during the term of the Agreement with at least one of the three

Rating Agencies in or above the “A” category, the Governmental Entity shall have the right to terminate the Agreement with the Counterparty as the "Affected Party" as that term is contemplated in the ISDA schedule.

3. Collateral Requirements - Terms imposing collateral requirements will be based upon each party’s credit ratings and will require collateralization or other forms of credit enhancements to secure any termination payment amount that exceeds the applicable collateral threshold. The minimum collateral requirements, including collateral thresholds, types of collateral and collateral valuation will be determined by the Governmental Entity in concurrence with its Derivatives Policy and set forth in the credit support annex. All collateral must be in a form eligible as investments for Governmental Entities in Tennessee. Collateral shall be held by a third party custodian and marked to market at least weekly.

G. Credit Enhancement, Liquidity and Reserves

The Guidelines do not require, except in those cases where the Counterparty is required to provide collateral, guaranty, surety, or other credit enhancement to secure the termination value of an Interest Rate Agreement, either the Governmental Entity or the Counterparty to obtain credit enhancement or a liquidity facility in connection with entering into an Interest Rate Agreement. Although not required to maintain any reserves in connection with such Agreement, a Governmental Entity should consider the establishment of a reserve or reserves in accordance with its own Debt Management and Derivative Policies.

H. Financial Monitoring

The Governmental Entity shall require the Counterparty to provide at least monthly (preferably weekly) mark-to-market calculations showing the current termination value of the Interest Rate Agreement. If collateral has been provided to secure the Counterparty's obligations under an Interest Rate Agreement as required by Section IV-F hereof, the Counterparty shall agree to provide at least weekly valuations of the collateral and the termination value of the Interest Rate Agreement. The Governmental Entity shall establish an independent process for monitoring and reviewing the valuations required by these Guidelines and its Derivative Management Policy. With respect to every Interest Rate Agreement, this process shall monitor the following:

1. Counterparty Credit Rating and financial condition;

2. Guarantor/Surety Credit Rating and financial condition;

3. Report of Collateral Valuation determined by the Swap Advisor;

4. Report of Market/Termination Value determined by the Swap Advisor;

5. Report of Hedge Effectiveness determined by an Swap Advisor; and

6. Impact on Governmental Entity’s financial condition and position.

I. Application and Source of Payments

If a Governmental Entity receives a non-periodic payment in connection with entering into or performing under an Interest Rate Agreement relating to tax- exempt debt, including any termination payment, the Governmental Entity shall consult (or have consulted) with nationally recognized bond counsel as to whether there are any restrictions on the application or investment of such payment. A Governmental Entity required to make any payment, including a non-periodic payment, under an Interest Rate Agreement, shall make such payment only from sources as are identified in the Interest Rate Agreement and otherwise are legally available for such payment.

J. Skill and Knowledge Requirements

Any Governmental Entity proposing to enter into an Interest Rate Agreement is responsible for understanding the risks associated with such an Agreement. **The Governmental Entity's CEO and Governing Body (through a designated member of the Governing Body and a designated member of the Audit Committee, if any) are responsible for obtaining a basic understanding of any Interest Rate Agreement and related indebtedness. The Governmental Entity is responsible for maintaining staff able to understand, monitor, and disclose Interest Rate Agreements as well as for hiring the necessary professionals.**

K. Information Sheet

Each request for a Report of Compliance to enter into an Interest Rate Agreement shall be accompanied by a completed information sheet in the form of Appendix A attached hereto, and shall include such information as is necessary for the Comptroller to make a determination of compliance pursuant to these Guidelines.

V. Guidelines Specific to Forward Purchase Agreements

A. Conditions to Entering into Forward Purchase Agreements

The Governmental Entity must have outstanding at least $25,000,000 of indebtedness at the time of request to enter into a Forward Purchase Agreement. The Forward Purchase Agreement otherwise authorized under the Forward Purchase Authorizing Statutes:

1. Must disclose fully proposed continuing and one-time costs;

2. Must be entered into for the business purpose of reducing the reasonably anticipated lower net cost of borrowing with respect to the debt;

3. From the execution date of the Forward Purchase Agreement must provide for delivery of the debt:

    a. greater than 90 days; and

    b. if for new money debt, not greater than five (5) years; or

c. if for refunding debt, not greater than the earlier of five (5) years or the first optional redemption date either resulting in cost savings or at par.

If a determination is made to allow a forward delivery date greater than five (5) years as permitted in the Forward Purchase Authorizing Statutes, the Comptroller shall notify the State Funding Board providing the reason for the extended time period.

B. Supporting Analysis

The Governmental Entity shall present with the request for a Report of Compliance a copy of the presentation its CEO, or their designee, presented at a public meeting to its Governing Body analyzing how the Forward Purchase Agreement is intended to accomplish its business purpose taking into account the various risks posed by the Agreement and the underlying debt. This analysis must demonstrate the proposed transaction is in compliance with the Governmental Entity's adopted Debt Management Policy and Derivative Policy. This analysis shall include a comparison of all alternatives considered by the Governmental Entity and the rationale for the alternative chosen. This analysis shall also include reasonable stress testing of the Forward Purchase Agreement relative to the alternatives presented based on future changes in market condition consistent with historical levels of volatility.

C. Procurement of Forward Purchase Agreements

Governmental Entities may enter into a Forward Purchase Agreement through negotiation or through a competitive bidding process, as provided by law.

D. Form of Documentation

The Forward Purchase Agreement shall be in the form and content similar to a standard bond purchase agreement and shall clearly define the rights and obligations of each party to the Forward Purchase Agreement in the event of failure to perform by either party. All material terms and conditions must be contained within the Agreement and not within another document.

E. Risks Associated with Forward Purchase Agreements

Any Governmental Entity that enters into a Forward Purchase Agreement shall be responsible for understanding the risks associated with entering into such an Agreement. The Governmental Entity shall also identify those risks and describe the potential impact in the analysis required by Paragraph B above.

F. Standards for Selection

To be qualified, a Forward Purchaser or its credit support providers will have a credit rating of: (i) at least "A2" or "A+" with a stable outlook by at least one of the three Rating Agencies and not rated lower than "A3" or "A-" by any of the Rating Agencies or (ii) have a special purpose subsidiary with a double-A rating by at least two of the three Rating Agencies.

In addition, qualified Forward Purchasers must have a demonstrated record of successfully executing Forward Purchase Agreements of similar size and scope.

G. Application and Source of Payments

If a Governmental Entity receives a non-periodic payment in connection with entering into or performing under a Forward Purchase Agreement relating to tax- exempt debt, including any termination payment, the Governmental Entity shall consult (or have consulted) with nationally recognized bond counsel as to whether there are any restrictions on the application or investment of such payment. A Governmental Entity required to make any payment under a Forward Purchase Agreement, including non-periodic payments, shall make such payment only from sources as are identified in the Forward Purchase Agreement and otherwise are legally available for such payment.

H. Skill and Knowledge Requirements

Any Governmental Entity proposing to enter into a Forward Purchase Agreement is responsible for understanding the risks associated with such an Agreement. **The Governmental Entity's CEO and Governing Body are responsible for obtaining a basic understanding of any Forward Purchase Agreement and the proposed indebtedness. The Governmental Entity is responsible for maintaining staff able to properly understand and execute Forward Purchase Agreements as well as the subsequent debt issuance. The Governmental Entity is responsible for appropriate professionals.**

I. Information Sheet

Each request by a Governmental Entity to enter into a Forward Purchase Agreement shall be accompanied by a completed information sheet in the form of Appendix B attached hereto and shall include such information as is necessary for the Comptroller to make a determination of compliance pursuant to these Guidelines.

History
Adopted September 27, 2000, effective October 15, 2000;
Amended July 30, 2002, effective August 1, 2002; and
Amended October 20, 2009, effective November 1, 2009.

Appendices
A- Interest Rate Agreement Information Sheet
B- Forward Purchase Agreement Information Sheet
C- Authorizing Statutes

APPENDIX A

INTEREST RATE AGREEMENT INFORMATION SHEET

General Information [Guidelines, Sections II, III-A and IV-J]

Name of Governmental Entity: _____
Name of Governing Body (if different): _____

If Governmental Entity is Borrower or Lessee of a Conduit Issuer to Which this Agreement Relates, name of Conduit Issuer: _____

Address: _____

_____
Website: _____

Name of Chief Executive Officer of Governmental Entity: _____
Mailing Address: _____
E-mail Address: _____
Phone: _____
Fax: _____

Name of Chief Financial Officer (if designated by CEO as contact): _____
Phone number: _____
E-mail address: _____

Name of Swap Advisor: _____
Name of Financial Advisor: _____
Name of Bond Counsel: _____
Name of Swap Counsel: _____

Indebtedness of Governmental Entity: _____
Amount Currently Outstanding (as of / /20): _____

Amount to be Issued: _____

TOTAL: _____

Authorizing Statute for Interest Rate Agreement [Guidelines, Section III-C]

- Section 7-34-109 Municipal Utilities
- Section 7-39-305 Energy Acquisition Corporations
- Section 7-82-502 Utility Districts
- Section 9-21-213 General Obligation bonds and Citizens Bonds
- Section 9-21-305 Revenue Bonds
- Section 9-21-602 Capital Outlay Notes
- Section 9-21-907 General Obligation Refunding Bonds

- Section 9-21-1006 Revenue Refunding Bonds
- Section 12-10-111 Public Building Authority Bonds
- Section 12-10-116 Leases, loan agreements, sales contracts or operating contracts between a Governmental Entity and a Public Building Authority
- Section 49-3-1002 Counties for Schools
- OTHER: _____

_____

_____

CERTIFICATION

I, the undersigned Chief Executive Officer of the Governmental Entity, do hereby certify the following:

1. The attached debt management policy and derivative policy adopted by the Governing Body of the Governmental Entity on _____, as amended on _____, are in full force and effect and were most recently reviewed on _____; and the capital improvement plan or budget for FY _____ was adopted on _____.

2. [ ] The name and contact information of the Chair of the Governing Body's Audit Committee is: _____

or

[ ] The Governing Body does not have an audit committee and the reason there is not an audit committee is: _____

3. The name and contact information for the persons serving in the following positions for the Governmental Entity indicating if not a full-time employee of the Governmental Entity, why the position is not a full-time employee and how the person was selected:

   Accountant: _____
   Chief Financial Officer: _____
   Monitor: _____

4. Financial Statements with unqualified audit opinions for the last two fiscal years (FY20 and 20) for which audited financial statements are available either [ ] are on file in the Division of [State/County/Municipal] Audit or [ ] are attached to this Application.

5. The indebtedness with respect to which the proposed Interest Rate Agreement relates either [ ] has been issued or [ ] will be issued:

   a. principal amount of $ _____

   b. debt service structure and reason for _____

      _____

   c. construction period, if applicable, of three years or less;

   d. final maturity date _____; and

The indebtedness either [ ] is or [ ] will be when issued in full compliance with the above referenced debt management policy [explanation] _____

_____

_____

6. The proposed Interest Rate Agreement[1] will be in full compliance with the above referenced derivative policy in a notional amount not to exceed _____

   a. The purpose for entering into interest rate agreement:
      - Reduce the Governmental Entity's exposure to changes in interest rates with respect to a borrowing.
      - Reduce the net cost of borrowing with respect to related obligations.
      - Accomplish the following described purpose: _____

        _____

   b. Type of Interest Rate Agreement:
      - Interest Rate Swap Agreement:
        [ ] Fixed to floating ; or
        [ ] Floating to fixed
      - Interest Rate Collar
      - Interest Rate Floor
      - Interest Rate Cap
      - Other type of Interest Rate Agreement: _____

   c. Earliest starting date: _____ Final termination date: _____

   d. If an option to enter into an agreement, when may the option be exercised?

      _____

   e. Attached is the risk and mitigation presentation to the Governing Body made on ____ pursuant to Section III.D.3 of the Guidelines.

7. Public notice of this request for a Report of Compliance was given on _____ by means of _____

   _____

8. The Governmental Entity understands and accepts its obligations under the Guidelines, including the reporting requirements, conflict prohibitions, and provision of public notice of submission.

CERTIFIED this _____ day of _____, 20___.

By: _____
(Signature) (Must be executed by Chief Executive Officer)
Name: _____
Title: _____

[1] If anticipate more than one Interest Rate Agreement, provide information for each.

APPENDIX B

FORWARD PURCHASE AGREEMENT INFORMATION SHEET

General Information [Guidelines, Sections II, III-A and IV-J]

Name of Governmental Entity: _____
Name of Governing Body (if different): _____

If Governmental Entity is Borrower or Lessee of a Conduit Issuer to Which this Agreement Relates, name of Conduit Issuer: _____

Address: _____

_____

Website: _____

Name of Chief Executive Officer of Governmental Entity: _____
Mailing Address: _____
E-mail Address: _____
Phone: _____
Fax: _____

Name of Chief Financial Officer (if designated by CEO as contact): _____
Phone number: _____
E-mail address: _____

Name of Swap Advisor: _____
Name of Financial Advisor: _____
Name of Bond Counsel: _____
Name of Swap Counsel: _____

Indebtedness of Governmental Entity: _____
Amount Currently Outstanding (as of / /20): _____

Amount to be Issued: _____

TOTAL: _____

Authorizing Statute for Interest Rate Agreement [Guidelines, Section III-C]

- Section 7-34-109 Municipal Utilities
- Section 7-39-305 Energy Acquisition Corporations
- Section 7-82-502 Utility Districts
- Section 9-21-302 Revenue Bonds
- Section 9-21-910 General Obligation Refunding Bonds
- Section 9-21-1008 Revenue Refunding Bonds
- Section 12-10-111 Public Building Authority Bonds
- Section 49-3-1002 Counties for Schools

o OTHER: _____

_____

_____

CERTIFICATION

I, the undersigned Chief Executive Officer of the Governmental Entity, do hereby certify the following:

1. The attached debt management policy and derivative policy adopted by the Governing Body of the Governmental Entity on _____, as amended on _____, are in full force and effect and were most recently reviewed on _____; and the capital improvement plan or budget for FY _____ was adopted on _____.

2. [ ] The name and contact information of the Chair of the Governing Body's Audit Committee is: _____

or

[ ] The Governing Body does not have an audit committee and the reason there is not an audit committee is: _____

3. The name and contact information for the persons serving in the following positions for the Governmental Entity indicating if not a full-time employee of the Governmental Entity, why the position is not a full-time employee and how the person was selected:

   Accountant: _____
   Chief Financial Officer: _____

4. Financial Statements with unqualified audit opinions for the last two fiscal years (FY20 and 20) for which audited financial statements are available either [ ] are on file in the Division of [State/County/Municipal] Audit or [ ] are attached to this Application.

5. The indebtedness to be issued pursuant to the proposed Forward Purchase Agreement:
   a. principal amount of $ _____
   b. debt service structure and reason for _____
      _____
   c. construction period, if applicable, of three years or less;
   d. final maturity date _____;
   e. anticipated costs and fees (complete a CT-0253 form with best estimates);
   f. [ ] new money with a delivery date of: _____

   or

   [ ] refunding with a delivery date of: _____
      [ ] which is the date of redemption either resulting in cost savings or at par,
      or
      [ ] (explain) _____

The indebtedness either [ ] is or [ ] will be when issued in full compliance with the above referenced debt management policy [explanation]_____
_____
_____

6. The proposed Forward Purchase Agreement:
   a. Dated Date: _____
   b. Delivery/issuance date: _____
   c. Forward Purchaser
      i. Selection process: _____
      ii. Name (if selected): _____
      iii. Rating(s) (if selected): _____
   d. Attached is the risk and mitigation presentation to the Governing Body made on __/__/20__ pursuant to Section III.D.3 of the guidelines.

7. Public notice of this request for a Report of Compliance was given on _____
   By means of _____

8. The Governmental Entity understands and accepts its obligations under the Guidelines, including the reporting requirements, conflict prohibitions, and provision of public notice of submission.

CERTIFIED this _____ day of _____, 20___.

By: _____
(Signature) (Must be executed by Chief Executive Officer)
Name: _____
Title: _____

APPENDIX C

AUTHORIZING STATUTES

Forward Purchase Authorizing Statutes

1. Local Government Public Obligations Act (Title 9, Chapter 21)
   TCA Sections 9-21-302(b), 9-21-910(d), 9-21-1008(c)
   Public Chapter 432, Acts of 1999
   Public Chapter 253, Acts of 2001
2. Public Building Authorities Act (Title 12, Chapter 10)
   TCA Section 12-10-111(j)
   Public Chapter 426, Acts of 1999
3. Municipal Utilities Act (Title 7, Chapter 34)
   TCA Section 7-34-109(g)
   Public Chapter 427, Acts of 1999
   Public Chapter 253, Acts of 2001
4. Utility District Act (Title 7, Chapter 82)
   TCA Section 7-82-502(d)
   Public Chapter 428, Acts of 1999
5. Energy Acquisition Corporations (Title 7, Chapter 39)
   TCA Section 7-39-305(g)
   Public Chapter 345, Acts of 1999
6. School Bonds Acts (Counties)(Title 49, Chapter 3, Part 10)
   TCA Section 49-3-1002(i)
   Public Chapter 253, Acts of 2001
7. Greater Dickson Gas Authority Act (Private Chapter 50, Acts 1989, as amended by Private Chapter 148, Acts of 2002)
   Section 7(h)(2)
8. Jackson Energy Authority Act (Private Chapter 55, Acts of 2001)
   Section 12(d)(2)

Interest Rate Authorizing Statutes

1. Local Government Public Obligations Act (Title 9, Chapter 21)
   TCA Sections 9-21-213(d), 9-21-305(c), 9-21-602(c), 9-21-907(c), 9-21-1006(c)
   Public Chapter 432, Acts of 1999
   Public Chapter 253, Acts of 2001
2. Public Building Authorities Act (Title 12, Chapter 10)
   TCA Section 12-10-111(k)
   Public Chapter 426, Acts of 1999
   Public Chapter 253, Acts of 2001
3. Municipal Utilities Act (Title 7, Chapter 34)
   TCA Section 7-34-109(f)
   Public Chapter 427, Acts of 1999
   Public Chapter 253, Acts of 2001

4. Utility District Act (Title 7, Chapter 82)
    TCA Section 7-82-502(c)
        Public Chapter 428, Acts of 1999
        Public Chapter 253, Acts of 2001
5. Energy Acquisition Corporations (Title 7, Chapter 39)
    TCA Section 7-39-305(f)
        Public Chapter 345, Acts of 1999
6. School Bonds Acts (Counties)(Title 49, Chapter 3, Part 10)
    TCA Section 49-3-1002(h)
        Public Chapter 253, Acts of 2001
7. Greater Dickson Gas Authority Act (Private Chapter 50, Acts 1989 as amended by Private Chapter 148, Acts of 2002)
    Section 7(h)(1)
8. Jackson Energy Authority Act (Private Chapter 55, Acts of 2001)
    Section 12(d)(1)