

Tennessee State Funding Board



Debt Management Policy

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Debt Management Policy

Purpose

A debt management policy is established to provide written guidance for a government regarding: the amount and type of debt that may be issued, the debt issuance process, management of the debt portfolio, the investment of bond proceeds, and compliance with regulatory authorities. 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) assists the Board in its decisions concerning debt issuance; and (3) provides justification for the issuance and structure of the debt. The State’s compliance with its debt management policy indicates to the rating agencies and capital markets that the State is well-managed with the ability to meet its obligations in a timely manner.

Annual costs related to debt are important financial considerations that impact the use of current 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 that is secured by the State’s pledge of its full faith and credit for the payment of both principal and interest. The Board is the entity authorized to issue general obligation debt of the State and issues all general obligation debt in the name of the State pursuant to a bond authorization enacted by the General Assembly (the “Bond Acts”). 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 Division of State Government Finance (SGF) serves as staff to and performs certain duties and functions for and at the direction of the Board. SGF is responsible for managing the debt of the State, including the issuance of all bonds and notes and the repayment of such debt. The Director of SGF serves as the Assistant Secretary to the Board.

Goals and Objectives

The Board has established this Debt Management Policy (the “Policy”) as a tool to ensure that financial resources are sufficient to fulfill the State’s long-term capital plan. In addition, 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. Policy Goals

- To document responsibility for the oversight and management of debt-related transactions;
- To define the types of debt approved for use within the Bond Acts;
- To define and establish the criteria for the issuance of debt;
- To define the appropriate uses of debt;
- To define and establish the criteria for the refunding of debt or the use of alternative debt structures; and
- To establish certain parameters to minimize the cost of issuing and servicing debt.

B. Policy Objectives

- To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;
- To identify legal, financial, and administrative limitations on the issuance of debt;
- To ensure the appropriate legal use of the Board's debt issuance authority;
- To ensure the State maintains appropriate resources and funding capacity for present and future capital needs;
- To protect and enhance the State's credit rating;
- To evaluate and consider all possible debt issuance options;
- To create and maintain transparency throughout the debt issuance and management process;
- To promote cooperation and coordination with other stakeholders in the financing and delivery of services;
- To manage interest rate exposure and other risks; and
- To comply with Federal Regulations, laws of the State, 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 Tenn. Code Ann. § 9-9 and various Bond Acts pursuant to an authorizing resolution adopted by the Board (the "Resolution")].
- 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 their respective instrumentalities.
- Debt may be used to finance capital projects authorized by the General Assembly of the State of Tennessee ("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.
- Debt may be authorized to fund highway improvements. Such authorization is used as a mechanism to provide the State with budget authority to execute contracts to fund 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.
- In compliance with Article II, Section 24 of the Tennessee Constitution debt may only be used to fund operating expenditures when such debt is repaid in the fiscal year issued; however, it is not the State's practice to issue debt to fund operating expenditures.
- Prior to the issuance of bonds, bond anticipation notes may be issued for project costs as authorized by the Bond Acts and a Resolution.
- Bonds may be issued to refund outstanding debt.

B. Debt Service Coverage Test

- In accordance with Tenn. Code Ann. §9-9-105(c), no general obligation bonds shall be issued after July 1, 2013, unless the debt service coverage test is satisfied. The coverage test is met if the amount necessary to pay the maximum annual debt service payable in the current or any future fiscal year is not greater than ten percent (10%) of the amount of total state tax revenues allocated to the general fund, to the debt service fund, and to the highway fund for the immediately preceding fiscal year (“Total State Tax Revenues”).
- The Board shall cause a debt capacity study to be conducted if the maximum annual debt service is equal to or greater than six percent (6%) of total state tax revenues. The study is required to be conducted on an annual basis until the maximum annual debt service no longer exceeds six percent (6%) of the Total State Tax Revenues.

C. Federal Tax Status

- **Tax-Exempt Debt** – The Board will use its best efforts to maximize the amount of debt sold as tax-exempt based on the following 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 constraints on investment of debt proceeds.
- **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 may finance taxable projects within the permitted limits of tax-exempt financings whenever possible.

D. Legal Limitations on the Use of Debt

- The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized.
- Debt may only be issued in accordance with the Bond Acts for which the General Assembly has appropriated sufficient funds for the first year’s obligation of principal and interest, and when the Board has determined that such funds are available.
- No debt may be issued for a term that is longer than the useful life of the capital project that it is funding.

E. Security

State general obligation bonds and notes constitute direct general obligations of the State. The State has pledged its full faith and credit with a charge and lien upon all fees, taxes and other revenues and funds allocated to the State’s general fund, debt service fund, and highway fund and, if necessary, the first fees, taxes, revenues and funds received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes.

For bonds that were issued on or before July 1, 2013, the charge and lien on fees, taxes and other revenues in favor of the bonds is subject to the specific pledge of special revenues (pursuant to Tenn. Code Ann. § 9-9-104) in favor of State general obligation bonds issued prior to July 1, 2013.

All general obligation indebtedness of the State is secured on parity with all other general obligation indebtedness of the State, except that the special revenues secure only general obligation bonds outstanding on July 1, 2013.

Types of Debt

A. Long-Term Debt/Bonds

Bonds may be structured as:

- **Fixed Interest Rate Bonds** – Bonds that have an interest rate that remains constant throughout the life of the bond, i.e., serial bonds and term bonds.
- **Variable Interest Rate Bonds** – Bonds that bear interest at a variable or floating rate, adjusted at specified intervals (daily, weekly, or monthly) according to a specific index.
- **Capital Appreciation Bonds** – Bonds that are structured where interest on principal accrues and compounds until maturity. At maturity the full amount of the principal and all interest accrued is repaid.

B. Short-Term Debt

Pending the issuance of the definite bonds authorized by the Bond Acts, the Board may issue short-term debt from time to time as needed to fund projects during the project construction phase. Such debt shall be authorized by a Resolution. Short-term debt may be used for the following reasons:

- To fund projects with an average useful life of ten years or less; and
- To fund projects during the construction phase of the project.

Short-term debt is issued during the project's construction period and is subsequently repaid with proceeds from the sale of long-term debt or State funds. Short-term debt may include:

- **Bond Anticipation Notes (BANs)** – BANs are short-term interest-bearing securities issued to finance capital project expenditures during construction in anticipation of permanent financing through the issuance of long-term debt.
- **Commercial Paper (CP)** – CP is a BAN that may be issued with a maturity term of up to 270 days; and at maturity may be reissued to a future maturity date. It can be issued incrementally as funds are needed.
- **Fixed Rate Notes** – Notes issued for a period of five years or less with an interest rate that is fixed.
- **Variable Rate Notes** – Notes issued for a period of five years or less that bear interest at a variable or floating rate, adjusted at specified intervals (daily, weekly, or monthly) according to a specific index.
- **Revolving Credit Facility (RCF)** – A form of credit issued by a financial institution that provides the ability to draw on and repay during the term of the facility. The incremental drawdowns may bear interest until repaid.
- **Tax and Revenue Anticipation Notes (TRANs)** - Notes secured by a pledge of tax and other general fund revenues of the State. TRANs, if issued, constitute direct obligations of the State backed by its full faith and credit. All TRANs are repaid by the end of the fiscal year in which they were issued.

Debt Structure

The Board will 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 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 debt should be limited to no later than twenty-one (21) years after the date of issuance, unless otherwise permitted by the Bond Act and Resolution.

B. Debt Service Structure

New money debt will be issued with equal amounts of principal payments to be made in each year (level principal) over a twenty-year period unless otherwise specified in the Bond Act and Resolution. The Board will avoid use of bullet or balloon maturities; this does not include term bonds with mandatory sinking fund requirements or capital appreciation bonds.

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 provisions should be structured to provide the maximum flexibility relative to cost. The State will avoid the sale of long-term non-callable bonds absent careful evaluation by SGF in consultation with the Board's Financial Advisor (the "Financial Advisor") with respect to the value of the call option.

D. Tender Offer/Option Bonds

The State may issue tender option bonds to retire all or a portion of certain outstanding bonds by making an offer to repurchase the bonds from its bondholders at a specified price during a set period of time. Note that from a bond holder's perspective, the only material difference between a called and tendered bond is that with the tender offer, the bond holder must elect to accept the repurchase offer. If the tender offer is not accepted, the bond's terms (including scheduled maturity date) remain unchanged.

E. 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 Acts for funding discounts.

F. Redemption Provisions

The Board may redeem bonds in accordance with its redemption provisions in its Resolution.

- **Optional Redemption** - Bonds may be redeemed at the option of the State prior to their respective stated maturities.
- **Mandatory Redemption** - The State may issue bonds that are subject to mandatory redemption with a call provision that would require the State to redeem the bonds prior to their stated maturity date.
- **Sinking Fund Redemption** - The State may issue bonds that are subject to a sinking fund redemption that allows the State to call or redeem portions of its term bonds prior to their stated maturities with funds that have been set aside in a sinking fund for that purpose.

- **Extraordinary Redemption** - The State may issue bonds that are subject to an extraordinary redemption provision that gives the State the right to call or redeem its bonds due to an unusual, one-time event.

Refunding Outstanding Debt

The Board may refund (refinance) outstanding bonds by issuing new bonds of which the proceeds are used to repay the refunded bonds. SGF with assistance from the Board's Financial Advisor will have the responsibility to analyze outstanding bond issues for refunding opportunities. The Financial Advisor will conduct an analysis to identify all refunding candidates at least semiannually.

A. Refunding Considerations

- **Advance Refunding** - An advance refunding may be considered when the refunding results generate a present value savings of at least 4% per series of refunded bonds. Consideration will be given to escrow efficiency when reviewing refunding candidates. Current tax law only allows taxable advance refunding transactions.
- **Current Refunding** - A current refunding may be considered when the refunding results in (1) aggregate present value savings of at least 2% per series of refunded bonds or (2) present value savings per series that is equal to or greater than twice the cost of issuance allocable to the refunding series.
- **Refunding for Other Purposes** - Bonds may be refunded if necessary (1) due to a change in the use of a project that would require a change to the tax status of the bonds, (2) because the project is sold or no longer in service while still in its amortization period or (3) because the restrictive covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.
- **Present Value Savings Calculation** - Unless otherwise agreed upon by SGF and the Financial Advisor, the present value savings shall be calculated for each series of refunding bonds (whether or not issued at the same time) by comparing the debt service on the refunding bonds to the remaining debt service on the bonds to be refunded thereby, present valued to the issue date of such refunding bonds at a discount rate equal to the arbitrage yield on such refunding bonds calculated (whether for tax-exempt bonds or taxable bonds) in the same manner as arbitrage yield is calculated for Federally tax-exempt bonds; provided, however, if a series of bonds is being issued for the purpose of refunding bonds to be refunded and for other purposes the discount rate is equal to the arbitrage yield of the series of bonds. Percentage present value savings shall be expressed as a percentage of the par amount of such bonds to be refunded.
- **Escrow Efficiency** - Escrow efficiency is determined by dividing the present value savings by the perfect escrow cost. The perfect escrow cost for a net funded escrow, is the net present value of the escrow requirements (plus the additional cash deposit on the final requirement date) discounted at the arbitrage yield to the escrow purchase date. For a gross-funded escrow, the perfect escrow cost is the sum of the escrow requirements.

After consultation with the Financial Advisor, the Comptroller may waive the foregoing refunding considerations given that the sale of refunding bonds will still accomplish cost savings to the public. Such waiver shall be reported in writing to the Board at its next meeting.

B. Term of Refunding Issues

The final maturity of the refunding bonds will not extend beyond the fiscal year of the maturity of the originally issued debt. No backloading of debt will be permitted.

C. Escrow Structuring

The Board shall structure refunding escrows using legally permitted securities deemed to be prudent under the circumstances and will seek 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 consideration of risk and reliability or unless State and Local Government Series 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.

D. Arbitrage

The Board will seek to optimize efficiency on refunding escrows and to avoid negative arbitrage in its refunding subject to Tenn. Code Ann. §9-4-602 and 9-4-603. Any positive arbitrage will be subject to rebate in accordance with federal guidelines (see also “Federal Regulatory Compliance and Continuing Disclosure – A. Arbitrage”).

Methods of Sale

Pursuant to Tenn. Code Ann. §9-9-205 and 9-9-207, general obligation bonds issued by the Board shall be sold in such manner as may be determined and approved by the Board. Following each sale, SGF, with the assistance of the Financial Advisor will 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. A competitive sale is the Board’s preferred method of sale.

B. Negotiated Sale

While the Board prefers to sell its bonds through a competitive sale, it recognizes there are situations when it is best to negotiate the sale of its bonds. The underwriting team will be selected, and the underwriter’s fees negotiated prior to the sale. See section below titled “Selection of Underwriting Team (Negotiated Transaction).” The Board will consider the following factors in determining whether to conduct a negotiated bond sale:

- The bond structure may require a pre-marketing effort;
 - Fixed or variable rate bonds
 - Taxable or tax-exempt bonds
 - New money or refunding bonds
- Volatility in market conditions may require flexibility in the timing of the sale;
- Size of the bond sale which may limit the number of potential purchasers;
- Legal or disclosure issues make it advisable in marketing the bonds; and/or

- Credit strength.

C. Private Placement

The Board may consider privately placing its bonds in certain situations, such as:

- the small amount of bonds to be sold does not warrant public sale;
- the structure is complicated for a public debt issuance;
- the number of potential purchasers is limited; and/or
- the private placement results in a cost savings to the Board in comparison to other methods of debt issuance.

Selection of Underwriting Team (Negotiated Transaction)

The primary role of the underwriter and underwriting team in a negotiated bond sale is to market the State's bonds to investors. Underwriters often provide ideas and suggestions with respect to structure, timing, and marketing process for the bonds being sold. The underwriters also work with the State's Financial Advisor and financing team in the bond rating process. The roles of the underwriter and the Financial Advisor are separate, adversarial roles that cannot be provided by the same party. The Board will require an underwriter to clearly identify itself in writing, whether in response to a request for proposals ("RFP") 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 the State's bonds to be sold. The underwriter must clarify its primary role as a purchaser of securities in an arms-length negotiation 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 bond maturity to the Board or its designated official in advance of the pricing of the debt.

A. Senior Manager

The Board with assistance from its staff and Financial Advisor shall select the senior manager(s) 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 transaction;
- Financing ideas presented; and
- Competitive underwriting fees.

B. Co-Managers

Co-managers may be selected based on the same criteria as the Senior Manager. The number of co-managers appointed to a specific transaction may be dependent upon the transaction size with the need to ensure maximum distribution of the Board's bonds. The Secretary or Assistant Secretary to the Board will, at his or her discretion, affirmatively determine the designation policy for each bond issue.

C. Selling Groups

The Board may use selling groups in its bond sales 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. To the extent that selling groups are included in the transaction, the Secretary or Assistant Secretary of the Board, at his or her discretion, may appointment new members to the selling groups as the transaction dictates.

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.

Credit Quality

The Board will seek to achieve the highest bond ratings possible, consistent with the Board's financing objectives. If the State's credit ratings are downgraded below the AAA rating, the Board will immediately review its capital funding and debt strategy and take necessary steps within the Board's authority to avoid additional downgrades and restore the AAA rating, if possible. If a downgrade is a result of a criteria change, SGF will work with the credit rating agencies to understand the implications of the criteria and provide a summary to the Board.

SGF will be responsible for communicating information to the rating agencies to keep them informed of significant developments throughout the year. SGF will schedule rating agency calls and/or visits prior to the issuance of general obligation bonds or if the Board decides to move forward with a plan of finance that includes variable rate debt, a new CP program, or the use of derivatives.

The Board shall apply for ratings from at least two of the four credit rating agencies. The Board shall fully review the contract with the rating agencies and execute an engagement letter with each respective agency prior to submitting documentation for the rating.

Credit Enhancements

The Board may consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost. The Board may determine that a credit enhancement is necessary to sell debt in the capital market. In other cases, there may be an economic benefit to securing a credit enhancement; however, cost savings would need to be demonstrated. SGF may consider the following enhancements while evaluating the cost versus benefit of such enhancements:

A. Bond Insurance

The Board may purchase bond insurance when it is deemed to be prudent and advantageous by SGF. The primary consideration shall be based on whether the insurance is less costly than the present value of the difference between the interest cost on insured bonds versus uninsured bonds. For competitive sales, the purchaser of the bonds may be allowed to determine whether bond insurance will be used. The purchaser will include the cost of the bond insurance (to be paid by the purchaser) in its bid for the bonds. If SGF decides to purchase insurance, it shall do so on a competitive bid basis whenever practicable. In a negotiated sale, SGF will select a provider whose bid is most cost effective and will consider the credit quality of the insurer with terms and conditions governing the guarantee that are satisfactory to the Board.

B. Letters of Credit

The Board may enter into a letter-of-credit (LOC) agreement if such an agreement is deemed prudent and advantageous. SGF will prepare and distribute an RFP to qualified banks or other qualified financial institutions that includes terms and conditions that are acceptable to the Board. The LOC will be awarded

to the bank or financial institution with the highest credit quality that provides a proposal with the lowest cost that meets the criteria established by the State.

C. Liquidity

For variable rate debt that requires a liquidity facility to mitigate remarketing risk, the Board will evaluate:

- The cost of alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and lines of credit, in comparison to the cost of the inability to issue debt due to an illiquid market;
- Whether the facility needs to be diversified among liquidity providers, to limit credit exposure to any individual liquidity provider;
- All cost components attributed to the liquidity facility, including commitment fees, standby fees, draw fees, and interest expense on amounts drawn on the facility; and
- A comparative analysis and evaluation of the cost of external liquidity providers compared to the cost for self-liquidity.

The winning bid will be awarded to the bank or financial institution with the highest credit quality that provides a proposal with the lowest cost that meets the criteria established by the Board.

D. Use of Structured Products

No interest rate agreements or forward purchase agreements will be considered unless the Board has established a policy defining the use of such products before the transaction is considered.

Risk Assessment

SGF will evaluate each transaction to assess the types and amounts of risk associated with each transaction and consider all available means to address and mitigate the risks. SGF will evaluate all proposed transactions to ensure consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

A. Private Business Use

Private business use of a project or facility financed with tax-exempt bonds may cause the interest on the tax-exempt bonds to be taxable to the owner of the bonds.

B. Default Risk

- **Payment (monetary) default risk** – The risk that the State defaults on its debt obligations by not making its debt service payments by the due date.
- **Technical default risk** – The risk that the State fails to comply with the covenants or conditions (non-financial terms) of its debt obligations.

C. Liquidity Risk

The risk that an illiquid capital market would impede the State's ability to issue or remarket debt along with the risk of having to pay a higher interest rate to the liquidity provider in the event of a failed remarketing of short-term debt.

D. Interest Rate Risk

The risk that market interest rates change based on conditions which are outside the control of the State. Debt with variable rates could be subject to interest rate volatility and based on market conditions rates could be higher than estimated. Debt that includes a requirement to be refinanced could be subject to higher interest rates in the future resulting in higher interest costs.

E. Rollover Risk

The risk of refinancing debt with the rate of interest on the new debt being greater than the original rate of interest.

F. Market Risk

Risk that may arise due to changes in the municipal or other financial markets, geopolitical events, or recessions that could result in the inability to access the financial markets or borrowing in financial markets that could result in higher than expected interest rates.

Transparency

The Board will comply with the Tennessee Open Meetings Act and provide adequate notice of a public meeting. The Board will specify on the agenda any matters related to debt issuance that are to be considered. All costs related to the debt issuance, recurring and non-recurring, (including bond interest and costs of issuance) shall be disclosed to the general public in a timely manner. Additionally, in accordance with the State's Continuing Disclosure Undertaking (CDU), the Board will provide certain financial information and operating data by specified dates and provide notice of certain enumerated events with respect to the bonds pursuant to continuing disclosure requirements as required by the U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12. The Board intends to maintain transparency by:

- Posting the Official Statement of a bond sale to the Board's website within two weeks of the closing of the sale;
- Filing the Debt Report with the Board not later than forty-five days following the issuance or execution of a debt obligation, with a copy filed with the Division of Local Government Finance (LGF) pursuant to Tenn. Code Ann. §9-21-134; and
- Electronically submitting information necessary to satisfy the Board's continuing disclosure requirements for the bonds through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website in a timely matter (see "Federal Regulatory Compliance and Continuing Disclosure").

Professional Services

The Board requires all professionals engaged in assisting in the State's debt issuance transactions to clearly disclose all compensation and consideration received relative to services provided to include "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, that serves as counsel to SGF regarding Board matters.

B. Bond Counsel

Bond counsel shall be engaged through SGF and serve to assist the Board in all matters related to its general obligation debt issues under a written engagement letter.

C. Financial Advisor

The Financial Advisor shall be engaged through SGF and serve to assist the Board on financial matters under a written contract. However, the Financial Advisor shall not be permitted to bid on, privately place or underwrite an issue for which it is or has been providing advisory services. The Financial Advisor has a fiduciary duty including a duty of loyalty and a duty of care. The Financial Advisor shall be a registered municipal advisor with the Municipal Securities Rulemaking Board (MSRB).

D. Dealer or Remarketing Agent

The Board may enter into a Dealer Agreement with the appointed CP dealer or Remarketing Agent Agreement associated with variable rate debt offerings. The Dealer and/or Remarketing Agent agrees to offer and sell the CP or other variable rate debt, on behalf of the Board, to investors and other entities and individuals that purchase CP.

E. Issuing and Paying Agent

The Board will appoint an Issuing and Paying Agent to act as paying agent and registrar for the State's CP at all times while the CP is outstanding. The Board will execute an Issuing and Paying Agency Agreement with the appointed firm. The Issuing and Paying Agent will be a bank, trust company, or national banking association that has trust powers.

F. Credit/Liquidity Provider

The Board shall enter into a Credit/Liquidity Agreement with an appointed provider if deemed necessary or advisable for the CP. The provider shall be a bank, lending institution or the Tennessee Consolidated Retirement System that extends credit to the Board in the form of a revolving credit facility, a line of credit, a loan, or a similar credit product or as a liquidity facility for CP.

G. Refunding Trustee

The Refunding Trustee shall be appointed by resolution of the Board adopted prior to the issuance of any refunding bonds. The Refunding Trustee will be a bank, trust company or national banking association that provides Paying Agent and Registrar services.

H. Verification Agent

The Verification Agent will be selected through a RFP process prior to the issuance of refunding bonds, if required. The Verification Agent will verify the cash flow sufficiency to the call date of the escrowed securities to pay the principal and interest due on the refunded bonds.

I. Escrow Bidding Agent

The Escrow Bidding Agent will be selected through a RFP process prior to the issuance of refunding bonds. With regards to structuring the refunding escrow with investment securities, the Escrow Bidding Agent will prepare bidding specifications, solicit bids for investment securities, review and evaluate responses to the bids, accept and award bids, and provide final certification to the State as to completion of requirements.

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 such information that is reasonably sufficient to allow the Board to understand the significance of the relationships.

Professionals who become involved in a 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 provision. No disclosure is required if such disclosure violates any rule or regulation of professional conduct.

Debt Administration

A. Planning for Sale

In planning for the sale of bonds, the procedures outlined below will be followed:

- Prior to submitting the Resolution to the Board for approval, the Director of SGF (the “Director”), with the assistance of the Financial Advisor, will present to the Board’s staff information concerning 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,
- The Director (with the assistance of SGF staff), Bond Counsel, and Financial Advisor, along with other members of the financing team will prepare the preliminary offering document (i.e., a Preliminary Official Statement) describing the transaction and the security for the debt that is fully compliant with all legal requirements; and
- 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.

B. Preparing for Bond Closing

In preparation for the bond closing, the procedures outlined below will be followed:

- The Director (with the assistance of SGF staff), Bond Counsel, and Financial Advisor, along with other members of the financing team will prepare the offering document (i.e., an Official Statement) describing the transaction and the security for the debt that is fully compliant with all legal requirements.
- The Financial Advisor will provide a closing memorandum with written instructions on transfer and flow of funds.
- The Board’s staff, with assistance from 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, if applicable.
- 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.

- Within 45 days from closing, the Director will prepare a Debt Report outlining costs related to the issuance and other information set forth in Tenn. Code Ann. § 9-21-134, present the report at the next meeting of the Board and file a copy with LGF.
- 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 and reporting all arbitrage earnings associated with the financing and submitting any tax liability that may be owed to the Internal Revenue Service (IRS).
- The Post-Issuance Compliance (PIC) team will meet annually to review matters related to compliance and complete the PIC checklist.
- As a part of the PIC procedures, the Director (with the assistance of SGF staff) will, no less than annually, request and receive confirmation from the responsible departments that there has been no change in use of tax-exempt financed facilities.

For additional information on planning and preparing for a bond sale, see the Standard Operating Procedure Bond Issuance and Checklist.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage

The Board, through SGF, will comply with arbitrage requirements on invested tax-exempt bond proceeds. 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 its 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 for investment by the Board must be invested per Tenn. Code Ann. §9-9-110, subject to any restrictions required pursuant to any applicable bond issuance authorization. Compliance with federal tax code arbitrage requirements relating to invested tax-exempt bond funds will be maintained.

Proceeds used to refund outstanding long-term debt shall be placed in an irrevocable refunding trust fund with a Refunding Trustee. The investments (i) shall not include mutual funds or unit investments trusts holding such obligations, (ii) shall be rated no lower than the second highest rating category of both Moody's Investors Service, Inc. and Standard and Poor's Global rating services, and (iii) shall mature and bear interest at such times and in such amounts that will be sufficient without reinvestment, together with any cash on deposit, to redeem the bonds to be refunded and to pay all interest due on the bonds to be refunded.

C. Disclosure

The Board will disclose the State's audited Annual Comprehensive Financial Report on the EMMA website as well as certain financial information and operating data required by the continuing disclosure undertakings for the outstanding bonds no later than January 31st of each year. The Board will timely disclose any failure to provide required annual financial information. The Board will also, in accordance with the CDUs, disclose on the EMMA website within ten business days after the occurrence of any of the following events relating to the bonds to which the CDUs apply:

- Principal and interest payment delinquencies
- Nonpayment-related defaults, if material
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers or their failure to perform
- Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of such bonds or other material events affecting the tax status of such bonds
- Modifications to rights of bond holders, if material
- Bond calls, if material, and tender offers
- Defeasances
- Release, substitution or sale of property securing the repayment of the bonds, if material
- Rating changes
- Bankruptcy, insolvency, receivership, or similar event of the State
- Consummation of a merger, consolidation, or acquisition of the issuer or sale of all or substantially all of the assets of the Board, other than in the course of ordinary business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- Appointment of successor trustee or the change of name of a trustee if material
- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

Generally Accepted Accounting Principles (GAAP)

The Board will comply and 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.

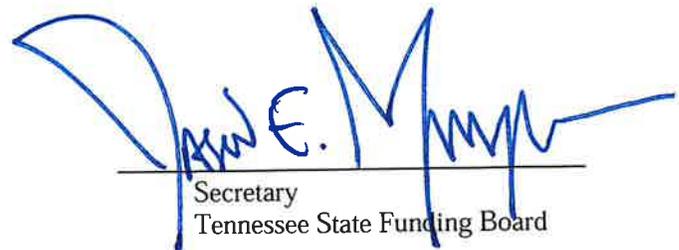
Review of the Policy

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 than 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. The Board adopted the amended Policy on September 16, 2013, effective September 16, 2013.
3. The Board adopted the amended Policy on May 11, 2017, effective May 11, 2017.
4. The Board adopted the amended Policy on March 2, 2018, effective March 2, 2018.
5. The Board adopted the amended Policy on June 27, 2019, effective June 27, 2019.
6. The Board adopted the amended Policy on July 22, 2021, effective July 22, 2021.
7. The Board adopted the amended Policy on July 22, 2024, effective July 22, 2024.
8. The Board adopted the amended Policy on June 23, 2025, effective June 23, 2025.



Secretary
Tennessee State Funding Board

APPENDIX A

Annual Review

The Board has reviewed and accepted the Debt Management Policy on:

October 8, 2014

November 19, 2015

July 20, 2020

July 26, 2022

June 27, 2023