State of Tennessee Indebtedness Report

Justin P. Wilson, Comptroller

June 30, 2017

STATE OF TENNESSEE

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Comptroller

COMPTROLLER OF THE TREASURY
STATE CAPITOL

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September 5, 2017

The Honorable Bill Haslam, Governor
The Honorable Randy McNally, Lieutenant Governor
The Honorable Beth Harwell, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide updated information on the four state debt issuers: The State Funding Board for Tennessee's General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report compares outstanding indebtedness at June 30, 2017, and at December 31, 2016. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), the Energy Efficient Schools Initiative (EESI) and the State Infrastructure Fund (SIF).

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

Justin P. Wilson
Comptroller of the Treasury

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The Honorable John Stevens, 1st Vice-Chair
The Honorable Doug Overbey, 2nd Vice-Chair

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Tennessee Debt Issuers

Tennessee State Funding Board (SFB)

The SFB has responsibility for issuing all State general obligation bonds and notes authorized by the General Assembly. The State utilizes general obligation commercial paper to short-term finance its capital projects during the construction period. As projects are completed, this commercial paper is repaid with the proceeds from the issuance of long-term debt (general obligation bonds.) The State Funding Board debt management policy is located at: http://www.comptroller.tn.gov/sl/policy.asp

Tennessee State School Bond Authority (TSSBA)

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

Higher Educational Facilities Bond Program

The TSSBA is delegated the responsibility for issuing bonds and notes to provide funds:

- to make loans to state institutions of higher learning to construct income-producing facilities, and
- to make funds available to the Tennessee Student Assistance Corporation for student loans under the Guaranteed Student Loan Program.

The TSSBA utilizes a revolving credit facility to short-term finance projects during the construction period. As projects are completed, the facility is repaid with the proceeds from the issuance of long-term debt (Higher Educational Facilities Program bonds.)

Qualified Zone Academy Bond Program (QZAB)

The QZAB program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997. QZABs are used to provide funds to make loans to local governments for certain educational projects. Security for the QZABs is the general obligation pledge of the local government borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

Qualified School Construction Bond Program (QSCB)

The QSCB program is a federal tax credit (2009) /federal direct subsidy (2010) program established through the American Recovery and Reinvestment Act of 2009 (ARRA). The 2009 and 2010 QSCBs were used to make loans to local governments for certain qualified school construction projects. The TSSBA issued all of the QSCB bonds allocated under ARRA, so no additional debt will be issued for this program. Security for the QSCBs is the general obligation pledge of the local government borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

Tennessee Local Development Authority (TLDA)

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

Tennessee Local Development Authority Bond Programs

The TLDA has the responsibility for issuing its debt obligations to provide funds for the following purposes:

- to make loans to local governments for the financing of construction and improvements for water and sewer systems;
- to make loans to local governments for the financing of certain capital projects;
- to make loans to certain small business concerns for pollution control facilities;
- to make loans to farmers for certain capital improvements;
- to make loans to counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties;
- to make loans to airport authorities and municipal airports; and
- to make loans under the Community Provider Program to mental health institutes and substance abuse facilities.

Tennessee Housing Development Agency (THDA)

THDA provides mortgage loan products at competitive interest rates to lower and moderate income persons and families in order to create safe, sound, and affordable housing opportunities across the State. The Bond Finance Committee of the THDA Board of Directors is responsible for overseeing THDA debt issuance. THDA has issued debt under the following four (4) general resolutions: the Housing Bond Resolution (Mortgage Finance Program) (the "1974 General Resolution"), the Homeownership Program Resolution (the "1985 General Resolution"), the Housing Finance Program Resolution (the "2009 General Resolution"), and the General Residential Finance Program Bond Resolution (the "2013 General Resolution"). No debt is currently outstanding under the 1974 General Resolution. THDA is currently issuing debt only under the 2013 General Resolution. The 2013 General Resolution does not carry the moral obligation pledge of the State. The THDA debt management policy is located at: http://www.comptroller.tn.gov/sl/policy.asp

State of Tennessee Indebtedness Report

(Unaudited)

	As of December 31, 2016		As of June 30, 2017		Variance Increase (Decrease)	
	Number of Loans / Projects	Debt Outstanding	Number of Loans / Projects	Debt Outstanding	Number of Loans / Projects	Debt Outstanding
Long-term General Obligation Debt						
General Obligation Bonds Outstanding	1,846	$ 1,966,680,000	1,837	$ 1,905,530,000	(9)	$ (61,150,000)
General Obligation Commercial Paper						
Tax-Exempt	90	$ 124,893,000	96	$ 164,893,000	6	$ 40,000,000
Taxable	3	28,063,000	3	28,063,000	-	-
Total Commercial Paper Outstanding	93	$ 152,956,000	99	$ 192,956,000	6	$ 40,000,000
Tennessee State School Bond Authority						
Higher Education Facilities Program						
Bonds Outstanding	181	$ 1,450,430,000	178	$ 1,419,500,000	(3)	$ (30,930,000)
Revolving Credit Facility (RCF) Outstanding:						
Tax-Exempt	36	$ 104,890,978	33	$ 180,165,320	(3)	$ 75,274,342
Taxable	5	8,902,353	8	7,986,746	3	(915,607)
Total Revolving Credit Facility[1)]	41	$ 113,793,331	41	$ 188,152,066	-	$ 74,358,735
Qualified Zone Academy Bond Program						
Bonds Outstanding	13	$ 32,590,000	13	$ 32,590,000	-	$ -
Qualified School Construction Bonds						
Series 2009	13	$ 177,000,000	13	$ 177,000,000	-	$ -
Series 2010	15	$ 212,440,000	15	$ 212,440,000	-	$ -
Tennessee Local Development Authority						
Bonds Issued and Outstanding	18	$ 3,825,000	12	$ 3,005,000	(6)	$ (820,000)
Tennessee Housing Development Agency						
Mortgage Loans / Principal Outstanding	22,386	$ 1,886,900,000	22,472	$ 1,944,050,000	86	$ 57,150,000
Total State Indebtedness:		**$ 5,996,614,331**		**$ 6,075,223,066**		**$ 78,608,735**

Footnotes:

1) There are two projects that are being funded with both taxable and tax exempt proceeds from the RCF.

Authorized/Unissued Debt

	(Unaudited) As of December 31, 2016		As of June 30, 2017		Variance Increase (Decrease)
General Obligation [1]	$ 1,383,220,050		$ 1,414,120,050		$ 30,900,000
Tennessee State School Bond Authority (TSSBA)	$ 573,979,150	[2]	$ 554,223,941	[2]	$ (19,755,209)
Tennessee Local Development Authority (TLDA)	$ 305,000,000	[3]	$ 305,000,000	[3]	$ -
TLDA Capital Projects	$ 75,000,000		$ 75,000,000		$ -
Tenessee Housing Development Agency (THDA)	$ 1,043,100,000	[3]	$ 985,950,000	[3]	$ (57,150,000)
Total Authorized/Unissued Debt	$ 3,380,299,200		$ 3,334,293,991		$ (46,005,209)

Footnotes:

1)

Authorized and Unissued as of 6/30/16	$ 1,703,700,083	A/U 12/31/16	$ 1,383,220,050	$ (320,480,033)
Less: Canceled 2016/2017	(102,480,033)		(49,584,010)	$ 52,896,023
Less: Bonds Issued 2016A	(218,000,000) *		-	$ 218,000,000
New Bond Authorization 2016-2017	-		80,000,000	$ 80,000,000
Authorized and Unissued as of 12/31/16	$ 1,383,220,050	A/U 6/30/17	$ 1,413,636,040	$ 30,415,990

TDOT Bond Authorization:	$ 641,000,000	$ 721,000,000	$ 80,000,000
TDOT Bond Authorization - Bridges	117,000,000	87,900,000	$ (29,100,000)
Capital Projects Bond Authorization:	625,220,050	604,736,040	$ (20,484,010)
	$ 1,383,220,050	$ 1,413,636,040	$ 30,415,990

* Issuance of bond proceeds in the amount of $175,865,000 par and $42,135,000 premium

2) Amount indicated is capital projects approved by the TSSBA and the State Building Commission.

3) Amount indicated is the unissued remaining statutory debt limit.

Change in Debt Outstanding from Prior Period

General Obligation Debt

- During the period from December 31, 2016 to June 30, 2017, bond principal matured in the amount of $61,150,000.
- The increase in commercial paper outstanding was comprised of one new issuance totaling $40,000,000.
- Bonds were authorized in the amount of $80,000,000 for Highway Improvements, and bond authorizations were canceled in the amount of $49,584,010.

Tennessee State School Bond Authority (TSSBA)

Higher Education Facilities Program

- Bond principal matured in the amount of $30,930,000 during the period. The revolving credit facility loans outstanding increased by $74,358,735, comprised of draws on the facility in the amount of $82,000,000 and payoffs in the amount of $7,641,265.

Qualified Zone Academy Bond Program (QZAB)

- As of June 30, 2017, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is $24,413,471.

Qualified School Construction Bond Program (QSCB)

- As of June 30, 2017, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled $157,702,303.

Tennessee Local Development Authority (TLDA)

- Bond principal in the amount of $820,000 matured during the period.

Tennessee Housing Development Agency (THDA)

- Bond principal outstanding increased by $57,150,000 during the period. The increase was a combination of:
    - New bonds issued under the 2013 General Resolution in the original principal amount of $275,000,000, and
    - Bonds that matured, or were redeemed in accordance with their terms, in the principal amount of $217,850,000.

Bond Ratings by Program

	Fitch	Moody's	S&P
State of Tennessee	AAA	Aaa	AAA [1]
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 [3]	AA+ [4]
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	AA+	Aa1 [3]	AA+ [1]
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 [3]	AA+ [1]
Tennessee Local Development Authority (TLDA)	AA	n/a [2]	AA+
Tennessee Housing Development Authority (THDA) 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (Single Family New Issue Bond Program)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

1 On May 26, 2016, S&P Global Ratings upgraded the State of Tennessee's bond rating from AA+ to AAA. On the same date, S&P Global Ratings upgraded the TSSBA's Qualified School Construction Bonds Series 2009 and 2010 from AA to AA+, following the upgrade of the State.

2 On September 18, 2015, Moody's Investors Services Inc. downgraded the Authority's bond rating from Aa3 to A2. On November 13, 2015, Moody's Investors Service Inc. withdrew the Authority's A2 rating.

3 Explanation of Moody's Investors Services Inc. Ratings:

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)
- Programmatic rating - Aa1
- Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)
- Programmatic rating - Aa1
- Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010
- Programmatic rating - Aa1
- Financing rating - Aa2

4 On July 27, 2016, S&P Global Ratings upgraded the TSSBA's Higher Education Bonds from AA to AA+, following the upgrade of the State's rating.

Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2017

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY 2018	160,370,000	80,322,778	240,692,778
FY 2019	151,465,000	73,341,165	224,806,165
FY 2020	148,490,000	66,715,578	215,205,578
FY 2021	141,670,000	60,145,698	201,815,698
FY 2022	141,910,000	53,655,805	195,565,805
FY 2023	133,910,000	47,317,568	181,227,568
FY 2024	131,245,000	41,762,635	173,007,635
FY 2025	123,815,000	36,670,058	160,485,058
FY 2026	121,605,000	31,526,110	153,131,110
FY 2027	114,550,000	26,624,688	141,174,688
FY 2028	109,760,000	22,017,709	131,777,709
FY 2029	101,275,000	17,494,030	118,769,030
FY 2030	76,925,000	13,493,337	90,418,337
FY 2031	65,785,000	10,215,920	76,000,920
FY 2032	57,910,000	7,408,688	65,318,688
FY 2033	35,655,000	5,280,875	40,935,875
FY 2034	28,650,000	3,743,250	32,393,250
FY 2035	28,650,000	2,310,750	30,960,750
FY 2036	23,100,000	1,017,000	24,117,000
FY 2037	8,790,000	219,750	9,009,750
	$ 1,905,530,000	**$ 601,283,392**	**$ 2,506,813,392**

Note: New money general obligation debt is issued and structured as 20-year, level principal, fixed interest rate bonds.

Tennessee Loan Programs

State Revolving Fund (SRF) Loan Programs

The TLDA, in conjunction with the Department of Environment and Conservation, also administers the Clean Water and Drinking Water SRF Loan Programs, which make loans to local governments for sewer and safe drinking water projects. The TLDA does not issue debt to finance these loans. The programs are funded by federal capitalization grants and state appropriations. Therefore, the dollar amount of loans managed for the SRF Loan Programs is not included in the Total State Indebtedness.

Clean Water State Revolving Fund

The Clean Water SRF Loan Program was established pursuant to the Federal Clean Water Act as amended by the Water Quality Act of 1987 and the State Wastewater Facilities Act of 1987.

Drinking Water State Revolving Fund

The Drinking Water SRF was established pursuant to the Federal Safe Drinking Water Act and the State Drinking Water Revolving Loan Fund Act of 1997.

State Infrastructure Fund (SIF) Loan Program

The TLDA is also responsible for approving loans to local governments from the SIF for the construction of transportation infrastructure (street, highway, bridge, tunnel and any related roadway facilities) projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public. The TLDA cannot issue debt to finance these loans. Therefore, the dollar amount of loans managed for the SIF Loan Programs is not included in the Total State Indebtedness.

Energy Efficient Schools Initiative (EESI) Loan Program

The EESI Program was established by the Tennessee General Assembly in 2008 with $90 million. The enabling legislation also created a twelve-member council, the Energy Efficient Schools Council, to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs. The EESI grants and loans provide funding for capital outlay projects to improve the energy efficiency in Tennessee's public K-12 schools. The Energy Efficient Schools Council contracts with the Office of State and Local Finance for the administration of these loans. No debt is issued in the capital marketplace; therefore, the dollar amount of loans managed for the EESI Loan Programs is not included in the Total State Indebtedness.

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	As of December 31, 2016		As of June 30, 2017		Variance Increase (Decrease)	
	Number of Loans / Projects	Loans Outstanding	Number of Loans / Projects	Loans Outstanding	Number of Loans / Projects	Loans Outstanding
State Revolving Fund Loan Program						
Clean Water (Sewerage)						
Principal Outstanding	188	$ 504,227,162	196	$ 558,563,422	8	$ 54,336,260
Drinking Water						
Principal Outstanding	115	$ 123,291,657	128	132,810,288	13	$ 9,518,631
State Infrastructure Fund (SIF)	1	$ 117,459	1	$ 211,624	-	$ 94,165
Energy Efficient Schools Initiative (EESI)	54	$ 43,493,099	58	47,499,041	4	$ 4,005,942

Change in Loans Outstanding from Prior Period

State Revolving Fund Loan Programs

Clean Water State Revolving Fund (CWSRF)

- From December 31, 2016 to June 30, 2017, the loan balance increased $54.3 million. Twelve new loans were added to the program, and four loans were paid in full. During this time, approximately $12.7 million in loan repayments were received and approximately $67 million was disbursed to borrowers.

Drinking Water State Revolving Fund (DWSRF)

- During this period, the loan balance increased $9.5 million. Thirteen new loans were added to the program. During this time, approximately $3.85 million in loan repayments were received and approximately $13.33 million was disbursed to borrowers.

State Infrastructure Fund (SIF)

- During this period, disbursements totaling approximately $94,165 were made to the only borrower.

Energy Efficient Schools Initiative (EESI)

- During this period, the loan balance increased approximately $4 million. Approximately $3.4 million in loan repayments were received and approximately $7.4 million was disbursed to borrowers.

Board Membership

State Funding Board

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration

Tennessee State School Bond Authority

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration
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David Gregory, Acting Chancellor, Tennessee Board of Regents (ended 1/31/2017)
Dr. Flora Tydings, Chancellor, Tennessee Board of Regents (effective 2/1/2017)

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Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

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Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration

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