TENNESSEE STATE FUNDING BOARD
May 24, 2021

The Tennessee State Funding Board (the "Board") met on Monday, May 24, 2021, at 2:25 p.m., via in the Tennessee State Capitol, Executive Conference Room, Ground Floor, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also physically present:

The Honorable Tre Hargett, Secretary of State
The Honorable David Lillard, State Treasurer
Commissioner Butch Eley, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Having established that a physical quorum was present, Mr. Mumpower called the meeting to order and presented the minutes from the meeting held on April 20, 2021, for consideration and approval. Mr. Hargett made a motion to approve the minutes, and Mr. Lillard seconded the motion. The motion was unanimously approved.

Mr. Mumpower then recognized Mr. Bob Rolfe, Commissioner of the Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the April 20, 2021, Board meeting, the FastTrack balance was $221,902,293.83. Since that time $95,149,162.37 in new appropriations had been received, which consisted of $149,162.37 in interest penalty on a claw back provision and $95,000,000 in supplemental appropriations for two new upcoming projects; $770,000 in funds had been deobligated; $5,991,500 in new grants and loans had been approved and $156,512.34 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of $311,673,443.86 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of $293,582,665.74, resulting in an uncommitted FastTrack balance of $18,090,778.12. Mr. VanderMeer reported that the projects to be considered at this meeting totaled $4,000,000.00, and if these projects were approved, the uncommitted balance would be $14,090,778.12 and the total committed balance would be $297,582,665.74, which represented 95.5% of the FastTrack balance.

Commissioner Rolfe then presented the following FastTrack projects:

- **Hydro-Gear Limited Partnership – Huntingdon (Carroll County)**
  FastTrack Economic Development Grant $3,000,000
- **JC Ford Co – Columbia (Maury County)**
  FastTrack Economic Development Grant $1,000,000

The Board member packets included letters and FastTrack checklists signed by Commissioner Rolfe, and inventive acceptance forms signed by company representatives. Mr. Mumpower inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Commissioner Rolfe responded affirmatively. Mr. Mumpower then inquired if the checklists had been completed for each project and Commissioner Rolfe responded affirmatively. Mr. Mumpower then inquired if all the projects included accountability agreements which would provide protections for the state in the event the entity could not fulfill the agreement, and Mr. Rolfe responded affirmatively. Secretary Hargett made a motion to approve the FastTrack projects that were presented, and Commissioner Eley seconded the motion. The motion was unanimously approved.

For agenda item number four, Mr. Mumpower then recognized Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Division of State Government Finance (SGF), to present the "Resolution Authorizing Amended and Restated Standby Commercial Paper Purchase Agreement" (the "CP Standby Resolution"). Ms. Thompson stated that the Board has in place a Commercial Paper Standby Purchase Agreement (the "CP Standby Agreement") with the Tennessee Consolidated Retirement System (TCRS) and that CP Agreement expires on July 1, 2021. Ms. Thompson stated that TCRS and the Board have agreed to enter into another five-year agreement. Ms. Thompson stated that this CP Standby Resolution authorizes the amended and restated CP Standby Agreement that has been revised to reflect the following:

- The dated date of the new CP Standby Agreement is May 26, 2021.
- The termination date of the CP Standby Agreement will be July 1, 2026.
- The commitment amount of $350,000,000 remains the same.
- The Issuing and Paying Agent is Zions Bank.
- The Standby Purchaser Rate has been revised to reflect current market rates as indicated in the defined term which is prime plus 150 basis points with a floor of 5%.
- The commitment fees of 35 basis points annually remain the same.
- The notice section has been updated to reflect appropriate contact names and addresses.

Ms. Thompson then noted the CP Standby Resolution and the CP Standby Agreement in their final form were provided in each Board member's packet. Mr. Hargett made a motion to approve the CP Standby Resolution, and Mr. Mumpower seconded the motion. The motion was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present "A Resolution Authorizing and Providing for the Issuance and Sale of General Obligation Bonds of the State of Tennessee" (the "Bond Resolution"). Ms. Thompson stated that the State of Tennessee is contemplating the issuance of tax-exempt and taxable bonds which will be authorized by the Bond Resolution included in the Board packet. Ms. Thompson stated that prior to submitting the Bond Resolution for approval, and in accordance with the Board's debt management policy, SGF is required to present to staff and the members of the Board information concerning the purpose of the financing, the proposed structure of the financing, the source of payment to be pledged to the financing, the proposed method of sale, all members of the proposed financing team, and an estimate of costs associated with the financing. Ms. Thompson further noted that in the case of a proposed refunding, SGF will present the rational for using the proposed debt structure, an estimate of the expected savings and a discussion on any potential risks associated with the proposed structure. Ms. Thompson stated the Bond Resolution provided the following information regarding the financing:

- It was determined that it may be beneficial to the Board, due to the low interest rate environment and to create capacity in the commercial paper program, to issue new money bonds to repay/refund commercial paper and to fund project costs and costs of issuance in an amount not to exceed $200,000,000.
- The bonds shall be issued pursuant to Title 9, Chapter 9, Tennessee Code Annotated and shall constitute direct general obligations of the State for the payment of the principal of and premium, if any, and interest on which there is pledged the full faith and credit of the State.
- It may also be advisable that the State also issue a series of current and/or advance refunding bonds to refund, or refinance bonds that are currently outstanding that, depending on market conditions, if refunded, may accomplish cost savings that would be in the best financial interests of the Board and accomplishes cost savings to the public.
- The current and/or advance refunding bonds shall not be issued unless the issuance meets the parameters as outlined in the Board's debt management policy.
- Proposed structure – the structure of the financing would be 20 yr., level principal; may be issued as Tax-exempt or Taxable; (will be issuing Tax-Exempt for new money and current refunding, Taxable for advance refunding of both TE and TX bonds).
- Proposed method of sale – Bonds may be sold through competitive or negotiated sale; with the preferred method being competitive sale.
- That a recommendation letter be provided to the board by the Board's financial advisor, PFM Financial Advisors, LLC, and states that it would be in the best interest of the Board to sell its bonds through a negotiated sale with a summary of the process that we used to select the senior underwriter(s) on the transaction.
- Interest cost – the True Interest Cost (TIC) of the bonds shall not exceed 5% for tax-exempt bonds and 6% for taxable bonds.

Ms. Thompson explained that the following documents are provided in conjunction with the proposed bond transaction and are referenced in the Resolution:

- The draft Preliminary Official Statement updated from the state's last GO bond sale dated August 2019. A draft of the Preliminary Official Statement for the upcoming bond sale shall be distributed to the members of the Board prior to publication and distribution.
- A form of the Notice of Sale is provided (in the event of competitive sale) from the most recent competitive sale in August 2019.
- Bond Purchase Agreement (from last GO negotiated bond sale, Series 2016).
- Continuing Disclosure Undertaking in substantive form (from 2019 transaction), to be executed solely to assist the underwriters of the Bonds in complying with Rule 15c2-12.
- PFM recommendation letter to the board recommending the state execute a negotiated sale for its upcoming GO bond issue and select Jefferies as the senior underwriter for the Taxable Series of bonds, and FHN Financial Capital Markets as the senior managing underwriter for the Tax-Exempt Series of bonds.
- A form of Refunding Trust Agreement from the most recent refunding transaction in 2016 provided in the event that Refunding Bonds are issued.

Mr. Lillard made a motion to approve the resolution that authorizes and provides for issuance and sale of the state's general obligation bonds, and delegates the authority to the Comptroller to fix the details, and carry out the sale, of the bonds; and to sell the bonds through a negotiated sale based on the recommendation of PFM, the Board's financial advisor. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present the consideration for approval of the City of Memphis to issue revenue bonds to be paid from Tourism Development Zone ("TDZ") Revenues. Ms. Thompson stated that SGF received a request from the City of Memphis for approval from the Board to issue federally taxable revenue bonds, not to exceed $75,000,000, through the Economic Development Growth Engine ("EDGE") Development Board of the City of Memphis and the County of Shelby, TN to finance a portion of the cost of the Liberty Park project. Ms. Thompson further stated that the bonds are to be secured and payable from TDZ revenues pursuant to the Convention Center and Tourism Development Act of 1998, as amended. Ms. Thompson then stated that if there should be a deficiency in the TDZ revenues, debt service on the bonds would be payable from non-property tax revenues as annually appropriated by the city. Ms. Thompson then stated that the bonds would be additionally secured by a temporary debt service reserve fund, funded from proceeds of the bonds in the amount of $4,000,000. Ms. Thompson then stated that requests for approval from the Board are required under Public Chapter 816, Acts of 2018, which amended the 1998 Act. Ms. Thompson further stated that there were various items required to be submitted to SGF and that the receipt of those items was tracked using the checklist included in the Board members' packets. Ms. Thompson then stated that the items included contact information for the City of Memphis, the description of the debt and the transaction, three binding statements that were required to be provided, confirmation from the issuer that the project to be financed was certified as a Qualified Public Use Facility ("QPUF") by the Department of Finance & Administration ("F&A") and described in the State Building Commission approved application, the debt amortization schedule, a copy of the adopted debt authorizing resolution, and the draft of the Preliminary Official Statement ("POS"). Ms. Thompson then stated that all required materials had been received by SGF.

Mr. Mumpower then asked if the debt amortization schedule, as required by TCA 7-88-109, had been submitted to F&A for approval. Mr. Eley responded that F&A had received the debt amortization schedule and that it was determined to be proper.

Mr. Mumpower then recognized Mr. Jim Strickland, Mayor of the City of Memphis. Mr. Strickland stated that this was the last TDZ authorized by the SBC to be submitted to the Board for approval. Mr. Strickland further stated that, if approval from the Board was granted to issue bonds, the City of Memphis would begin work immediately. Mr. Strickland then stated that the project was primarily the development of a youth sports complex, but letters of intent had also been received from a hotel operator to build a hotel on the site and from High Five Entertainment. Mr. Strickland further stated that the city was looking at other entertainment entities that could be included on the site. Mr. Strickland then stated that Governor Bill Lee had allocated $10,000,000 to the project in the budget and that it had been approved by the Legislature. Mr. Eley then asked what the total cost of the project would be. Mr. Strickland responded that the total cost would be $126,000,000.

Mr. Hargett then made a motion to approve the request from the City of Memphis to issue debt to be repaid with TDZ surplus revenues. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Mr. Lillard to discuss the interest rate environment and the issue surrounding the investment of State Pooled Investment Fund ("SPIF") and Local Government Investment Pool (LGIP) funds. Mr. Lillard then introduced Thomas Kim, Deputy Chief Investment Officer of the Department of Treasury ("Treasury") and Markus Klar, Senior Portfolio Manager, Treasury. Mr. Kim then presented the graph included in the Board members' packets. Mr. Kim stated that the latest SPIF rate provided two-basis points of earnings and further stated that the expected rate for May was in the one-basis point range. Mr. Kim further stated that we were in virtually a "zero-interest rate" environment and the federal government continues to provide stimulus to consumers, states, and local cities providing excess liquidity to the banking system. Mr. Kim further stated that at the same time, the US Treasury was issuing less debt pursuant to a debt ceiling agreement. This created a condition that we had a low interest rate environment with few available short-term investments. However, we had too much investable cash in the system driving down the interest rate further. Mr. Kim further stated that they believed this was a temporary phenomenon and that the Federal Reserve would at some point modestly adjust the interest rate (interest on excess reserve) to avoid negative rates on offered US Treasury Bills. Mr. Klar then stated that the investment yields had been dwindling from around 0.015% to close to zero. Mr. Klar then stated that Treasury had constraints on investing including having to maintain a certain average maturity, around sixty days, that did not allow longer dated investments. Mr. Klar further stated that even going out three months was not producing much of a yield. Mr. Klar then stated that Treasury has had discussions with the entities that they conduct investment trades with to get their thoughts on whether the interest rates will go negative. Mr. Klar further stated that the entities had expressed confidence that investment rates would not go negative because there was no incentive for the Federal Reserve to allow it to happen. Mr. Klar then reported that they had seen some negative blips in the marketplace but those had been due to technical isolated factors.

Mr. Lillard then stated that the SPIF, including the LGIP, was, in effect, the short-term money market fund for the state government. Mr. Lillard further explained that when the Department of Revenue takes in revenues, they turn it over to Treasury who manages and invests those funds in the SPIF which was created by state law and managed by those provisions. Mr. Lillard further stated that they were governed by certain principles and Securities & Exchange Commission Rule 2a-7 for the short-term money market funds for governmental entities. Mr. Lillard then stated that Treasury had elected to use a fixed-dollar amortization method meaning that parameters including not exceeding a certain number of days of weighted average maturity had to be met. Mr. Lillard then called attention to the total SPIF, including LGIP, as of May 21, 2021, in the amount of $20,041,633,530. Mr. Lillard then stated that the total state cash in the funds was $15,485,992,526 and the local government funds in the LGIP totaled $4,555,674,004. Mr. Lillard then reported that the return of the funds, gross of fee, was 4.9 basis points. Mr. Lillard further reported that Treasury charged a 4 basis point fee resulting in money held with Treasury earning 0.9 basis points. Mr. Lillard then stated with interest rates trending down that it could be extrapolated out in the future that the rate would go negative at some point, meaning Treasury would have to charge entities to keep money in the SPIF instead of the entity earning money. Mr. Lillard further pointed out that the CD investments were currently 1.08% of the asset breakdown of the SPIF and that CD investments used to make up approximately 45% to 50% of the asset breakdown back in 2009. Mr. Lillard further explained that asset breakdown was indicative of the economy as there was once a waiting list for banks to place CD investments within the state's portfolio that does not exist anymore. Mr. Lillard further stated that, in his view, there was a lack of demand in the economy that would stimulate the economics to produce higher rates. Mr. Lillard stated he wanted the Board to be aware of the situation as rates in some countries were requiring investing out 10 years in order to generate a positive yield.

Mr. Mumpower then asked how the potential influx of Coronavirus Aid, Relief, and Economic Security Act ("CARES") money would impact the situation and where would money drawn by the state and local governments be held. Mr. Lillard replied that the stimulus distributions are increasing market stress and that more money exacerbates the situation. Mr. Lillard further stated that Treasury was seeing more local government money moved to the LGIP and further stimulus would result in an increase in money moved to the LGIP by local governments. Mr. Lillard further discussed the idea of disallowing deposits by local governments into the LGIP, including the pros and cons. No further action was necessary.

After requesting other business and hearing none, Mr. Mumpower adjourned the meeting.

Approved on this 15th day of June 2021.

Respectfully submitted,

Sandra Thompson

Sandra Thompson
Assistant Secretary