



State of Tennessee Indebtedness Report

Justin P. Wilson, Comptroller

June 30, 2016



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

STATE CAPITOL

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Justin P. Wilson
Comptroller

December 15, 2016

The Honorable Bill Haslam, Governor
The Honorable Ron Ramsey, Speaker of the Senate
The Honorable Beth Harwell, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide 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, 2016 and at December 31, 2015. 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,

A handwritten signature in blue ink, appearing to read "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

The Honorable Randy McNally, Chair
The Honorable Bo Watson, 1st Vice-Chair
The Honorable Doug Overbey, 2nd Vice-Chair

House Finance, Ways and Means Committee
The Honorable Charles Sargent, Chair
The Honorable David Alexander, Vice-Chair
The Honorable Curtis Johnson, Finance Subcommittee Chair

Fiscal Review Committee
The Honorable Mark White, Chair
The Honorable Bill Ketron, Vice-Chair
Krista Lee, Director

Office of Legislative Budget Analysis
Rick Nicholson, Senate Budget Analysis Director
Cathy Higgins, House Budget Analysis Director

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State of Tennessee Indebtedness Report

(Unaudited)

	<u>a/o December 31, 2015</u>		<u>a/o June 30, 2016</u>		<u>Variance</u> <u>Increase (Decrease)</u>	
	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>
<u>Long-term General Obligation Debt</u>						
General Obligation Bonds Outstanding	1,810	\$ 1,956,330,000	1,795	\$ 1,899,205,000	(15)	\$ (57,125,000)
<u>General Obligation Commercial Paper</u>						
Tax-Exempt	102	\$ 181,073,000	111	\$ 221,073,000	9	\$ 40,000,000
Taxable	3	24,463,000	3	24,463,000	-	-
Total Commercial Paper Outstanding	105	\$ 205,536,000	114	\$ 245,536,000	9	\$ 40,000,000
<u>Tennessee Local Development Authority</u>						
Bonds Issued and Outstanding	20	\$ 4,610,000	18	\$ 3,825,000	(2)	\$ (785,000)
<u>Tennessee State School Bond Authority</u>						
Higher Education Facilities Program						
Bonds Outstanding	186	\$ 1,520,380,000	186	\$ 1,486,095,000	(16)	\$ (34,285,000)
Revolving Credit Facility Outstanding:						
Tax-Exempt	33	\$ 61,443,643	34	\$ 75,367,383	8	\$ 13,923,740
Taxable	6	10,238,386	6	9,112,778	2	(1,125,608)
Total Revolving Credit Facility	39	\$ 71,682,029	40	\$ 84,480,161	10	\$ 12,798,132
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	-	\$ -
<u>Tennessee Housing Development Agency</u>						
Mortgage Loans/Principal Outstanding	18,766	\$ 1,502,510,000	18,808	\$ 1,486,615,000	42	\$ (15,895,000)
("NIBP") (2009 Bond Resolution)	4,306	436,855,000	4,010	389,005,000	(296)	(47,850,000)
Mortgage Loans / Principal Outstanding	23,072	\$ 1,939,365,000	22,818	\$ 1,875,620,000	(254)	\$ (63,745,000)
Total State Indebtedness:	a/o 12/31/2015	\$ 6,119,933,029	a/o 06/30/2016	\$ 6,016,791,161		\$ (103,141,868)

Authorized/Unissued Debt

(Unaudited)

	<u>a/o December 31, 2015</u>	<u>a/o June 30, 2016</u>	<u>Variance</u> <u>Increase (Decrease)</u>
General Obligation ¹⁾	\$ 1,649,065,140	\$ 1,703,700,083	\$ 54,634,943
Tennessee Local Development Authority (TLDA)	\$ 305,000,000 ²⁾	\$ 305,000,000 ²⁾	\$ -
TLDA Capital Projects	\$ 75,000,000	\$ 75,000,000	\$ -
Tennessee Housing Development Agency (THDA)	\$ 990,635,000 ²⁾	\$ 1,054,380,000 ²⁾	\$ 63,745,000
Tennessee State School Bond Authority (TSSBA)	\$ 570,123,969 ³⁾	\$ 584,305,675 ³⁾	\$ 14,181,706
Total Authorized/Unissued Debt	\$ 3,588,324,109	\$ 3,720,885,758	\$ 132,561,649

Footnotes:

1)	Authorized and Unissued as of 06/30/15 New Bond Authorization 2015-16 Less: Canceled 2014/2015 Less: Canceled 2015/2016 Less: Bonds Issued 2015 Series A Authorized and Unissued as of 12/31/15	\$ 2,087,645,140 - - (98,580,000) (340,000,000) * <u>\$ 1,649,065,140</u>	A/U as of 12/31/15 A/U as of 06/30/16	\$ 1,649,065,140 87,700,000 - (33,065,057) - <u>\$ 1,703,700,083</u>	\$ (438,580,000) \$ 87,700,000 \$ - \$ 65,514,943 \$ 340,000,000 <u>\$ 54,634,943</u>
	TDOT Bond Authorization: TDOT Bond Authorization - Bridges Capital Projects Bond Authorization:	\$ 643,000,000 146,100,000 859,965,140 <u>\$ 1,649,065,140</u>		\$ 730,700,000 117,000,000 856,000,083 <u>\$ 1,703,700,083</u>	\$ 87,700,000 \$ (29,100,000) \$ (3,965,057) <u>\$ 54,634,943</u>

* Issuance of bond proceeds in the amount of \$286,275,000 par and \$53,725,000 premium

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

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

General Obligation Debt Information

General Obligation Debt

The State Funding Board debt management policy is located at:

<http://www.comptroller.tn.gov/sl/policy.asp>

- Bond principal matured in the amount of \$57,125,000.
- The increase to commercial paper outstanding was comprised of one new issuance totaling \$40,000,000.
- Bonds were authorized in the amount of \$87,700,000 for Highway Improvements, and bond authorizations were canceled in the amount of \$33,065,057.

Legislation Enacted in 2016

The 109th General Assembly passed legislation that demonstrated Tennessee's commitment to maintain the State's strong financial position.

Public Chapter 563 – Sunset Laws

Extends the state funding board eight years to June 30, 2024.

Public Chapter 571 – Public Funds and Financing

Requires a state officer, employee, or user of certain programs to receive approval from the office of state and local finance and either the Tennessee local development authority, state school bond authority, or state funding board, as applicable, before authorizing any change, amendment, or modification to a project or program that would affect the tax-exempt status.

Public Chapter 849 – Regulation of Bonds and Undertakings

Requires that bonds issued by the state funding board be sold in such manner and at such times as may be approved by the board rather than requiring those bonds to be sold at public sale or, at the discretion of the board and until June 30, 2016, at private sale; deletes provisions requiring the board to report periodically to the finance committees of the general assembly as to the terms and method of sale of bonds sold until June 30, 2016.

Public Chapter 869 – Higher Education

Restructures the board of regents; establishes state university boards of trustees; makes other changes necessary to effectuate the restructuring; revises the composition of the Tennessee higher education commission.

Other Information on Outstanding Debt

Tennessee Local Development Authority (TLDA)

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

Tennessee State School Bond Authority (TSSBA)

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

Higher Education Facilities Program

- Bond principal in the amount of \$34,285,000 matured during this period.
- The revolving credit facility loans outstanding increased by \$12,796,132, which was a result of draws on the facility in the amount of \$25,000,000 and payoffs in the amount of \$12,201,868.

Qualified Zone Academy Bond Program (QZAB)

- This program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997.
- Security for the QZABs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Education Program Facilities Bonds.
- As of June 30, 2016, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$22,614,701.

Qualified School Construction Bond Program (QSCB)

- This program is a federal tax credit (2009)/federal subsidy (2010) program created under the American Recovery and Reinvestment Act (ARRA) of 2009.
- Security for the QSCBs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes, and there is no cross default to the Higher Education Program Facilities Bonds.
- As of June 30, 2016, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$141,095,722.

Tennessee Housing Development Agency (THDA)

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

- Bond principal outstanding decreased by \$ 63,745,000 during this time period.
 - New bonds were issued totaling \$ 125,000,000.
 - Bond principal matured in the amount of \$ 188,745,000, of which \$ 47,850,000 was part of the NIBP program.

Bond Ratings on Outstanding Debt

BOND RATINGS

	<u>Fitch</u>	<u>Moody's</u>	<u>S & P</u>
State of Tennessee	AAA	Aaa	AAA ¹
Tennessee Local Development Authority	AA	n/a ²	AA+
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
THDA 1974 Resolution	n/a	Aa2	AA
THDA 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (NIBP)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

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

3 Explanation of Moody's Investor Services ratings:

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

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

4 Subsequent to the date of this report, 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.

Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2016

(Unaudited)

	PRINCIPAL		INTEREST		DEBT SERVICE REQUIRED
FY2016*	\$ 152,825,000		\$ 75,311,295		\$ 228,136,295
FY2017	160,275,000		80,747,788		241,022,788
FY2018	151,580,000		73,567,639		225,147,639
FY2019	141,265,000		66,944,536		208,209,536
FY2020	138,280,000		60,773,431		199,053,431
FY2021	131,540,000		54,645,145		186,185,145
FY2022	131,790,000		48,583,920		180,373,920
FY2023	124,180,000		42,703,442		166,883,442
FY2024	124,665,000		37,597,904		162,262,904
FY2025	115,390,000		32,607,463		147,997,463
FY2026	115,270,000		27,825,601		143,095,601
FY2027	106,545,000		22,989,539		129,534,539
FY2028	101,975,000		18,546,315		120,521,315
FY2029	95,460,000		14,370,323		109,830,323
FY2030	70,605,000		10,545,806		81,150,806
FY 2031	59,410,000		7,660,746		67,070,746
FY 2032	50,080,000		5,044,030		55,124,030
FY 2033	26,865,000		3,303,125		30,168,125
FY 2034	19,860,000		2,205,000		22,065,000
FY 2035	19,860,000		1,212,000		21,072,000
FY 2036	14,310,000		357,750		14,667,750
	\$ 2,052,030,000		\$ 687,542,798		\$ 2,739,572,798

* Includes amounts for the entire fiscal year 2016.

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>a/o December 31, 2015</u>		<u>a/o June 30, 2016</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>
<u>State Revolving Fund Loan Program</u>						
Clean Water (Sewerage) Principal Outstanding	184	\$ 421,401,494	188	\$ 469,725,695	4	\$ 48,324,201
Drinking Water Principal Outstanding	105	\$ 101,773,195	110	110,928,813	5	\$ 9,155,618
<u>Energy Efficient Schools Initiative (EESI)</u>	52	\$ 46,504,849	55	44,453,425	3	\$ (2,051,424)
<u>State Infrastructure Fund (SIF)</u>	1	\$ 117,459	1	\$ 117,459	-	\$ -

Loan Programs Information

State Revolving Fund Loan Program

The State administers the State Revolving Loan Funds Programs for the Local Governments. The programs currently have no outstanding indebtedness in the capital marketplace. The programs are funded by federal and state capitalization grants. Therefore, the dollar amount of loans managed for the State Revolving Loan Programs is not included in the Total State Indebtedness.

Clean Water State Revolving Fund (CWSRF)

- During this period, the loan balance increased \$48,324,201. Twelve new loans were added to the program. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.

Drinking Water State Revolving Fund (DWSRF)

- During this period, the loan balance increased \$9,155,618. Five new loans were added to the program. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.

Energy Efficient Schools Initiative (EESI)

The Energy Efficient Schools Initiative (EESI) was established by the Tennessee General Assembly in 2008 with \$90 million. Over \$87 million has been approved for projects to improve the energy efficiency in Tennessee's public K-12 schools. Purposes of the Energy Efficient Schools Council, also created by this legislation, include providing grants and loans for capital outlay projects and establish and support energy management programs. The enabling legislation also created a twelve member council to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs.

- From December 31, 2015 to June 30, 2016, to, the loan balance decreased approximately \$2 million. During this time, approximately \$3 million in loan repayments were received and approximately \$1.1 million was disbursed to borrowers. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.

State Infrastructure Fund (SIF)

The State Infrastructure Program provides assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

- No disbursements were made during this period.

Board Membership

State Funding Board

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

Tennessee Local Development Authority

Governor Bill Haslam, Chairman
Secretary of State Tre Hargett, Vice-Chairman
Comptroller Justin P. Wilson, Secretary
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Mr. Pat Wolfe, Washington County, Tennessee, Senate Appointee
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

Tennessee State School Bond Authority

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Dr. Joseph DiPietro, President, University of Tennessee
John G. Morgan, Chancellor, Tennessee Board of Regents (ended 1/31/2016)
David Gregory, Acting Chancellor, Tennessee Board of Regents (effective 2/1/2016)

Bond Finance Committee

Tennessee Housing Development Agency

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

ACKNOWLEDGEMENTS

Office of State and Local Finance

Sandi Thompson, Director
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Kayla Shewcraft Carr, CPA
Jacqueline Felland
Mark Graubner
Donna Kaukas

Cindy Liddell
Steve Osborne
Kathy Palmer
Ron Queen, CPA
Sheila Reed, CPA
Sharon Schmucker, CPA
Alicia Scott

Tennessee Housing Development Agency

Trent Ridley, Chief Financial Officer
Wayne Beard, Director of Finance