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# Tennessee's $658M deal, largest it's ever sold, could see record low TIC

By

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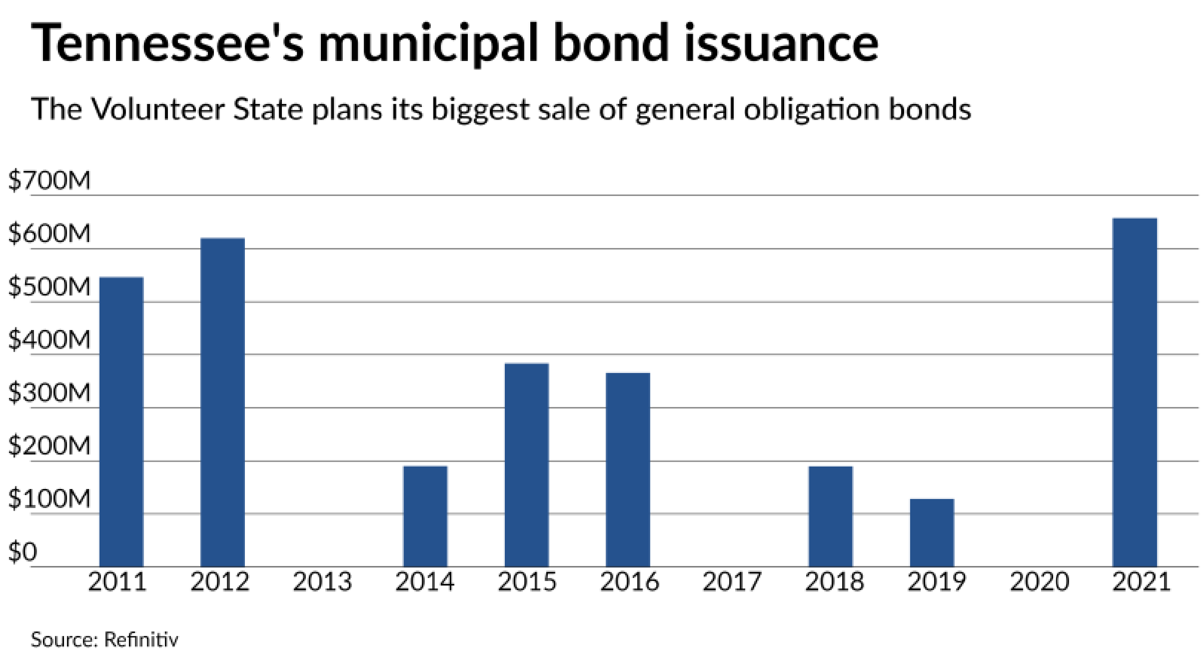
Tennessee heads to market next week with $658 million of general obligation bonds, the largest GO sale in the state's history.

The bonds are of the highest quality, rated triple-A by Moody's Investors Service, S&P Global Ratings and Fitch Ratings. All three agencies have stable outlooks on the credit. Demand is expected to be high for these gilt-edged bonds as investors have been sitting on the sidelines with a pile of cash waiting to invest in some top-rated state paper.




The $657.67 million deal consists of $492.775 million of Series 2021B taxable refunding GOs and $164.895 million of Series 2021A tax-exempt GOs.

Proceeds of the Series 2021B taxable refunding bonds will be used to currently and advance refund some of the state's outstanding GOs for net present value savings.

The Series 2021A exempt bonds are part new money and part current refunding. Proceeds will be used to finance capital projects, retire commercial paper notes and to currently refund some GOs for net present value savings.

Proceeds for some of the new-money projects include funding for the new State Library and Archives, a new building complex close to the new State Museum; money for state parks projects; funding for a University of Tennessee Health Science Center in Memphis; and money for a technical classroom education project for Nashville State Community College.

“We are right now in an historically low interest rate environment,” Sandi Thompson, director of state government finance, told The Bond Buyer, “which is why we are taking advantage of these interest rates."

She said because of the Tax Reform Act of 2017’s ban on tax-exempt advance refundings, the state couldn’t do the deal in an all tax-exempt status and so it will go with the lion’s share of the offering in a taxable mode.

“We noticed that we are going to have some considerable savings and that is why we are doing the taxable advance refunding,” she said. Depending on market conditions next week, she estimates the state could see between $35 million and $40 million in net present value savings.

If the market holds, the state could also receive the lowest recorded true interest cost in its history of GO sales. The last GO deal the state sold competitively on Sept. 27, 2019, with $100.1 million of exempts and $28 million of taxables. The exempts saw its five year with a 5% coupon yield 1.36% or six basis points above benchmarks, its 10 year with a 5% coupon yield 1.60% (+7) and its 20 year with a 5% coupon yield 2.03% (+7). The taxable portion priced at par saw its five year yield 1.87%, the 10-year 2.28% and the 20-year 2.87%.

The deal is scheduled to come to market the week of June 21. Jefferies will price the Series 2021B taxables on Monday and Tuesday while FHN Financial Capital Markets will price the Series 2021A tax-exempts on Tuesday.

Co-managers are Loop Capital Markets, Morgan Stanley, Truist, PNC Capital Markets, UBS, Raymond James and Wells Fargo Securities. PFM is the financial advisor; Hawkins Delafield & Wood is the bond counsel.

Thompson said the rating agencies have noted the state has fared well revenue-wise during the COVID-19 pandemic and has surpassed its budgeted numbers year-to-date.

*The GO deal is scheduled to come to market the week of June 21 consisting of taxables and exempts.*

*AdobeStock*

As of June 11, the state has seen 865,085 cases of coronavirus with 12,498 total deaths counted. About 2.2 million residents have been full vaccinated.

Last month, the state reported April revenues were higher than in the same period in the prior two years.

State revenues in April were $2.5 billion, up $1.3 billion from April 2020 and $596.7 million more than the budgeted estimates, according to Department of Finance and Administration Commissioner Butch Eley.

“It’s important to remember that March and April of 2020 were the only two months where the state experienced a negative growth rate for collections during the pandemic, so in an effort to make realistic analysis, we’ve looked at collections for April 2019,” Eley said in a release. “When we compare April of this year to 2020, the growth is 90.90%, but compared to April 2019, the April growth rate for all taxes is 15.01%.”

Tennessee is the 16th largest state with a population of 6.9 million. In 2020, it had a gross domestic product of $364 billion, 20th in the United States, with a per-capita personal income of $50,547, which was 85% of the national average.

"Tennessee's Aaa rating reflects the state's conservative fiscal management that has supported growing reserves, low debt levels, including a well-funded pension system, a growing and diversifying economy, and flexibility to adjust retiree healthcare benefits,” Moody’s said.

The state's outlook is stable, “based on continued revenue growth and prudent fiscal management resulting in growing reserves and strong liquidity,” according to Moody’s.

Fitch said the state’s ratings reflect “very low debt and pension liabilities and a conservative approach to fiscal management. The state follows a standard practice of building sizable reserves during economic recoveries, including a budgetary reserve to cushion against unexpected revenue volatility and a separate statutory reserve to address unexpected spending needs in its Medicaid program. After a sharp contraction during the Great Recession, economic gains were steady during the recovery and expansion that preceded the coronavirus pandemic, driving state revenue growth and enabling it to build up reserve balances.”

The state's liability position is among the lowest of the states, “driven by a historical reluctance to rely on debt issuance and a consistently conservative approach to pensions,” Fitch said.

"More than a year removed from the onset of the pandemic-induced recession, Tennessee's budgetary and economic momentum has shifted back to measured growth and the state maintains strong credit metrics, in our view," S&P said. "Having demonstrated strong leadership across functions from the executive to legislative to administrative, we believe the state was well positioned to navigate recessionary winds which weighed heavily on every state across the country."

As the COVID-19 pandemic restrictions wind down, economic growth will again take place.

“As the broader national economic recovery accelerates, we anticipate Tennessee will again be among the regional leaders in economic growth and outpace the nation as whole,” S&P said.

*Sandi Thompson said rating agencies have noted the state has fared well during the COVID-19 pandemic.* ***Bloomberg***

Tennessee's $42.6 billion fiscal year 2022 budget is structurally balanced and it is likely the state's financial condition will continue to improve.

"Like its preceding budget, public education and health and social services collectively account for approximately two-thirds of state appropriations. The preliminary estimates for the state's reserve balance for fiscal year-end 2022 is $1.5 billion, or just over 9% of general and education fund revenues," S&P said.

"The stable outlook reflects our view of the state's commitment to preserve budgetary flexibility by sustaining reserves and reflected through its demonstrated strong budgetary management and leadership," S&P said.

Despite its concentration in cyclical sectors, S&P anticipates that over the outlook horizon, Tennessee's economy will revert to stronger growth through the recovery period, supported by its growing employment.

"Furthermore, the outlook reflects our view of the state's strong management of its long-term liabilities," S&P said.

Federal aid may be especially helpful to the state in the near-term as it recovers from the coronavirus pandemic.

Tennessee received $2.65 billion of funds under the 2020 Coronavirus Aid, Relief and Economic Security Act, $2.36 billion of which was allocated directly to the state.

Tennessee has used its coronavirus relief fund allocation for reimbursement of state virus-related costs, grants for small businesses and non-profits and to buttress its unemployment trust fund. Tennessee has $340 million of unspent CARES funds left, which is earmarked for public health.

The 2021 American Rescue Plan Act could also prove beneficial for the Volunteer State, according to Fitch.

Tennessee's state and municipal governments are expecting to receive $6.3 billion of direct aid from the coronavirus state and local recovery fund, of which the state's share would be about $3.8 billion.

“The state has not yet determined the precise manner in which it will utilize the ARPA funds, but the governor and legislature are working on one-year and three-year plans for spending the moneys, and have reached out to key stakeholders in the state to solicit their feedback,” Fitch said. “The combination of direct aid and sizable economic stimulus should continue to have a positive near-term effect on state tax revenues.”

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