

**GUIDELINES FOR
INTEREST RATE AND FORWARD PURCHASE AGREEMENTS**

I. BACKGROUND

State statutes direct the State Funding Board to establish guidelines, rules or regulations with respect to interest rate swap agreements, other interest rate hedging agreements and forward purchase agreements that may be entered into by certain local governmental entities. The State Funding Board adopted these guidelines on September 27, 2000, effective October 15, 2000; and amended on July 30, 2002, effective August 1, 2002. State statutes require that if such a governmental entity intends to enter into such an agreement and submits such a request, the Comptroller is required to determine whether the proposed agreement complies with the guidelines and to report thereon to the governmental entity. A Governmental Entity must request the report of the Comptroller prior to the adoption by the Governing Body of a resolution authorizing such agreements. The guidelines are set forth below. The Guidelines do not govern contracts or other investment agreements the authority for which is based in statute other than the Forward Purchase Authorizing Statutes or the Interest Rate Authorizing Statutes, whether or not they relate to the Governmental Entity's debt.

II. DEFINITIONS

"Authorizing Statutes" shall mean the Forward Purchase Authorizing Statutes and Interest Rate Authorizing Statutes.

"Chief Executive Officer" shall mean the chief elected official of the Governmental Entity, or if there is no such elected official, the chairman of the Governing Body of the Governmental Entity.

"Chief Financial Officer" shall mean the Finance Director or other comparable official of the Governmental Entity.

"Comptroller" shall mean either the Comptroller, the Office of the Comptroller of the Treasury of the State of Tennessee, or the Comptroller's designee, as appropriate for the context.

"Counterparty" shall mean the party to an Interest Rate Agreement other than the Governmental Entity.

"Forward Purchase Agreement" shall mean an agreement providing for the purchase of bonds or other obligations of a Governmental Entity that provides for delivery of such bonds or other obligations on a date greater than ninety (90) days from the date of execution of such agreement.

"Forward Purchase Authorizing Statutes" shall mean the Tennessee legislative acts and statutes authorizing Forward Purchase Agreements in accordance with State Funding Board guidelines as identified from time to time by the Board.

"Governing Body" shall mean the legislative body of the Governmental Entity.

"Governmental Entity" shall mean any governmental entity authorized to enter into an Interest Rate Agreement or Forward Purchase Agreement pursuant to an Authorizing Statute. In the case of a conduit financing, "Governmental Entity" shall include both the conduit issuer and the borrower therefrom.

"Interest Rate Agreement" shall mean an interest rate swap or exchange agreement, an agreement establishing an interest rate floor or ceiling or both and any other interest rate hedging agreement, including options to enter into or cancel such agreements, as well as the reversal or extension thereof.

"Interest Rate Authorizing Statutes" shall mean Tennessee legislative acts and statutes authorizing Interest Rate Agreements in accordance with State Funding Board guidelines as identified from time to time by the Board.

III. PROCEDURE FOR SUBMISSION AND APPROVAL

A. Form of Submission.

Any request for a report of compliance with these Guidelines for Interest Rate Agreements or Forward Purchase Agreements shall include such information as is required in these Guidelines and shall be submitted by and signed by either the Chief Executive Officer or the Chief Financial Officer of the requesting Governmental Entity. For purposes of either an Interest Rate Agreement or a Forward Purchase Agreement, if a conduit borrowing is involved, both the conduit issuer and the borrower therefrom shall separately prepare and submit requests for reports of compliance. Financial advisors, underwriters, bond counsel and other professionals may assist the Governmental Entity in preparing a request, but may not submit a request. If any person other than the Chief Executive Officer or the Chief Financial Officer submits a request, the request will not be deemed to have been received and the Comptroller shall immediately return the request with an explanation of the proper procedure. The request must supply the information required by the appropriate attached Appendix as specified by these Guidelines, as well as any other information reasonably requested by the Comptroller.

B. Acknowledgment by Comptroller.

The Comptroller will record the request on the date received and will issue a timely acknowledgment to the official who submitted the request, indicating the date the request was received and referring to the 15-day period statutory review period.

C. Identification of Authorizing Statute.

In its request, the Governmental Entity shall identify the Forward Purchase Authorizing Statute or Interest Rate Authorizing Statute under which the request is being submitted and identify the specific type of Forward Purchase Agreement or Interest Rate Agreement for which the request is being submitted.

D. Report by Comptroller.

Upon reviewing the request, the Comptroller shall issue a report, referencing the Forward Purchase Authorizing Statute or Interest Rate Authorizing Statute, stating that the request by the Governmental Entity either substantially complies with these Guidelines or substantially does not comply with these Guidelines. A report stating that a request substantially complies with these Guidelines and the request submitted must be presented to the Governing Body at the time of adoption of the resolution authorizing such agreement and be included in the record of the meeting.

Any report of the Comptroller determining that a request by a Governmental Entity complies with these Guidelines shall be conclusive evidence that such request complies with these Guidelines. Subsequent to such determination by the Comptroller, no Interest Rate or Forward Purchase Agreement entered into that is consistent in all material respects with such request may thereafter be challenged for failure to comply with these Guidelines. **Such report of the Comptroller relates only to substantial compliance with the Guidelines and does not relate to the appropriateness of the transaction or the legal authority of the Governmental Entity to enter into the Agreement.**

If the request does not comply with these Guidelines, the report shall identify the areas of non-compliance. If the report indicates that certain information required by the Guidelines was not included with the request then the Governmental Entity may resubmit its request with the additional information and a new 15-day period for the Comptroller to review the request shall commence on the date of resubmission.

E. Waiver of Requirements.

The Comptroller may waive any requirement of these Guidelines, upon the written request of a Governmental Entity, if the Comptroller does not deem such requirement necessary to protect the interests of the Governmental Entity. If the Comptroller waives any requirement, the report of compliance shall specifically state that the request substantially complies with the Guidelines after giving effect to the waiver; a copy of such report shall be given to all other members of the State Funding Board.

F. Appeals Process.

If the report of the Comptroller states that the request does not comply with these Guidelines or if a waiver of the requirement of these Guidelines is denied, then the Governmental Entity may file a written request for appeal to the State Funding Board with the Division of Bond Finance, Office of the Comptroller of the Treasury. Such request shall specify in detail the basis on which the Governmental Entity believes a report of compliance or grant of waiver is justified. A meeting of the State Funding Board shall be held to consider the written appeal request within 15-days of receipt of the appeal, or as soon thereafter as a quorum can be achieved.

G. Exercise.

If, after receiving a report of compliance, the option to enter into the Interest Rate Agreement or Forward Purchase Agreement is exercised, the Governmental Entity shall submit within 15-days a report to the Comptroller identifying the reasons for exercising the option.

H. Termination.

If, after receiving a report of compliance, the Interest Rate Agreement or Forward Purchase Agreement is terminated, the Governmental Entity shall submit within 15-days a report to the Comptroller identifying the reasons for such termination and any payments made or received by any parties to the Agreement. The report must include the methods used in determining and the actual calculation of the amount of such payments.

IV. GUIDELINES SPECIFIC TO INTEREST RATE AGREEMENTS

A. Conditions to Entering into Interest Rate Agreement.

Any Governmental Entity is authorized to enter into an Interest Rate Agreement provided such Interest Rate Agreement is entered into for one or more of the following purposes:

1. Reduce the Governmental Entity's exposure to changes in interest rates with respect to a particular borrowing; or
2. Result in a reasonably anticipated lower net cost of borrowing with respect to related obligations; or
3. Accomplish such other purpose as is requested by the Governing Entity and approved by the Comptroller.

Any request by a Governmental Entity to enter into an Interest Rate Agreement shall analyze and describe how the Interest Rate Agreement is intended to accomplish one or more of the foregoing purposes. No Interest Rate Agreement shall be entered into unless such agreement relates to indebtedness of the Governmental Entity

either (i) that is outstanding or (ii) that will be incurred or authorized contemporaneously with either the execution or effective date of the Interest Rate Agreement and the Agreement is contingent on the issuance of such debt.

B. Procurement of Interest Rate Agreements.

Governmental Entities may enter into an Interest Rate Agreement through negotiation with a Counterparty or through a competitive bidding process, as provided by law.

C. Form of Documentation.

To document any Interest Rate Agreement, a Governmental Entity shall utilize the standard documentation prepared by the International Swaps and Derivatives Association, Inc. ("ISDA"), such as the Master Agreement, Schedule and Confirmation, with such modifications and supplements as the Governmental Entity deems necessary to accomplish the purposes of the Interest Rate Agreement and as approved by the Comptroller. Notwithstanding the foregoing, the Comptroller may approve other forms of documentation if requested by a Governmental Entity.

D. Risks Associated with Interest Rate Agreements.

Any Governmental Entity proposing to enter into an Interest Rate Agreement shall be responsible for understanding the risks associated with entering into such an Agreement. The Governmental Entity shall identify those risks associated with a proposed Interest Rate Agreement by completing the information sheet attached hereto as Appendix A.

E. Standards for Counterparty Selection and Security for Financial Interest.

Except as provided in the next sentence, any Counterparty to an Interest Rate Agreement shall be required to have either a counterparty, a long-term debt, or a claims paying rating at the time the Interest Rate Agreement is entered into of not less than an "A" category from a nationally recognized ratings service. In the event a proposed Counterparty does not have or fails to maintain either a counterparty, a long-term debt, or a claims paying rating equal to or higher than an "A" category, the Counterparty to the Interest Rate Agreement shall be required to collateralize the termination value of the Interest Rate Agreement with eligible collateral or shall provide a guaranty, surety, or other credit enhancement for its obligations under the Interest Rate Agreement from a guarantor, surety or other credit enhancement provider with a long-term debt or claims paying rating equal to or higher than an "A" category. Eligible collateral shall mean direct obligations of the United States or any agency thereof. At all times the eligible collateral shall have a market value (as evidenced by weekly valuations required by Section IV-H) at least equal to 102% of the termination value of the Interest Rate Agreement. If collateral is required, the Governing Body shall designate a custodian bank independent of the Counterparty to hold such collateral on behalf of the

Governmental Entity. The custodian bank shall be selected from one of the institutions designated by the State Treasurer of Tennessee as a Trustee Custodian pursuant to Section 9-4-108, Tennessee Code Annotated. The Governing Body shall execute a written custodial agreement with the custodian bank to provide for the custody of collateral required from a Counterparty. The custodial agreement shall make specific reference to the applicable Interest Rate Agreement and shall identify the type of collateral that the custodian bank may accept on behalf of the Governmental Entity. The custodial agreement shall also provide that (1) the bank will compare the collateral delivered by the Counterparty to that which has been identified by the Governmental Entity and will accept only such collateral which has been so identified, (2) the bank will certify to the Governmental Entity that such collateral is being held on behalf of the Governmental Entity, (3) the bank will assume entire responsibility for any loss arising from the transfer or safekeeping of such collateral during the period it is held by the bank pursuant to the custodial agreement, except for any loss which may arise from any event determined to be beyond the bank's control, (4) the bank will furnish the Governmental Entity written reports concerning any activity in the custodial account, and (5) no collateral shall be removed from the account without the prior approval of the Governmental Entity. If the rating of the Guarantor or Surety is lowered below an "A" category or is suspended after an Interest Rate Agreement is entered into, the Counterparty shall be required to collateralize in the manner described above the termination value of the Interest Rate Agreement or provide a substitute entity with a counterparty, a long-term debt, or a claims paying rating equal to or higher than an "A" category within 5 business days of such downgrade or suspension.

F. Credit Enhancement, Liquidity and Reserves.

The Guidelines do not require, except in those cases where the Counterparty is required to provide collateral, guaranty, surety, or other credit enhancement to secure the termination value of an Interest Rate Agreement, either the Governmental Entity or the Counterparty to obtain credit enhancement or a liquidity facility in connection with entering into an Interest Rate Agreement or to maintain any reserves in connection with such agreement.

G. Financial Statement Reporting.

Any Governmental Entity that enters into an Interest Rate Agreement shall account for the Interest Rate Agreement on its financial statements through generally accepted governmental accounting principles.

H. Financial Monitoring.

Unless the Counterparty has provided collateral to secure its obligations under an Interest Rate Agreement as required by Section IV-E hereof, the Counterparty shall agree to provide the Governmental Entity with at least monthly mark-to-market calculations showing the current termination value of the Interest Rate Agreement. If the Counterparty, Guarantor, or Surety has provided collateral to secure its obligations under

an Interest Rate Agreement as required by Section IV-E hereof, the Counterparty shall agree to provide at least weekly valuations of the collateral and the termination value of the Interest Rate Agreement. The Governmental Entity shall establish an independent process for monitoring and reviewing the valuations required by these Guidelines. The Governmental Entity shall clearly describe the process established and shall identify in its request whether (i) an employee or position within the Governmental Entity shall be responsible for such process or (ii) a third party shall be responsible for such process who shall submit reports to an employee or position within the Governmental Entity.

I. Application and Source of Payments.

If a Governmental Entity receives a non-periodic payment in connection with entering into or performing under an Interest Rate Agreement relating to tax-exempt debt, including any termination payment, the Governmental Entity shall consult with nationally recognized bond counsel as to whether there are any restrictions on the application or investment of such payment (unless the Governmental Entity has been advised previously by such counsel that no such restriction exists). A Governmental Entity required to make any payment, including a non-periodic payment, under an Interest Rate Agreement, shall make such payment only from sources as are identified in the Interest Rate Agreement and otherwise are legally available for such payment.

J. Educational Requirements.

As stated in Section IV-D, any Governmental Entity proposing to enter into an Interest Rate Agreement is responsible for understanding the risks associated with entering into such an Agreement. The Chief Executive Officer and Chief Financial Officer of a Governmental Entity must obtain a basic understanding of the risks and benefits of entering into an Interest Rate Agreement prior to requesting the approval of such an agreement by the Comptroller and may obtain professional advice to help analyze such risks and benefits to the extent deemed necessary by such Chief Executive Officer and Chief Financial Officer. Prior to submitting a request to enter into an Interest Rate Agreement, either the Chief Executive Officer or the Chief Financial Officer of the requesting Governmental Entity shall be required to attend educational training approved by the Comptroller relative to Interest Rate Agreements.

K. Information Sheet.

Each request by a Governmental Entity to enter into an Interest Rate Agreement shall be accompanied by a completed information sheet in the form of Appendix A attached hereto, and shall include such information as is necessary for the Comptroller to make a determination of compliance pursuant to these Guidelines.

V. GUIDELINES SPECIFIC TO FORWARD PURCHASE AGREEMENTS

A. Conditions to Entering into Forward Purchase Agreements.

Any Governmental Entity is authorized to enter into a Forward Purchase Agreement otherwise authorized by law provided such Forward Purchase Agreement is primarily entered into for one or more of the following purposes:

1. Reduce the Governmental Entity's exposure to changes in interest rates with respect to a particular borrowing; or
2. Result in a reasonably anticipated lower net cost of borrowing with respect to related obligations; or
3. Accomplish such other purpose as is requested by the Governing Entity and approved by the Comptroller.

Any request by a Governmental Entity to enter into a Forward Purchase Agreement shall analyze and describe how the Forward Purchase Agreement is intended to accomplish one or more of the foregoing purposes. No Forward Purchase Agreement shall be entered into unless such agreement relates to indebtedness that the Governmental Entity reasonably anticipates will be issued under applicable law.

B. Procurement of Forward Purchase Agreements.

Governmental Entities may enter into a Forward Purchase Agreement through negotiation or through a competitive bidding process, as provided by law.

C. Form of Documentation.

The Forward Purchase Agreement shall be in the form and content similar to a standard bond purchase agreement and shall clearly define the rights and obligations of each party to the Forward Purchase Agreement in the event of failure to perform by either party. All material terms and conditions must be contained within the Agreement and not within another document.

D. Risks Associated with Forward Purchase Agreements.

Any Governmental Entity that enters into a Forward Purchase Agreement shall be responsible for understanding the risks associated with entering into such an Agreement. The Governmental Entity shall also identify those risks associated with any proposed Forward Purchase Agreement by completing the information sheet attached hereto as Appendix B.

E. Standards for Counterparty Selection.

Governmental Entities may enter into Forward Purchase Agreements with any party that has a combined capital and surplus of not less than \$10,000,000 at the date of execution of the Forward Purchase Agreement. The Governmental Entity will include in its request submitted to the Comptroller evidence indicating the combined capital and surplus of each Counterparty. The Governmental Entity shall also include a copy of the latest audited financial report of each Counterparty and any interim financial reports considered necessary.

F. Financial disclosures.

Governmental Entities shall apply generally accepted governmental accounting principles in reporting the effect of a Forward Purchase Agreement on the Governmental Entity's financial statements.

G. Application and Source of Payments.

If a Governmental Entity receives a non-periodic payment in connection with entering into or performing under a Forward Purchase Agreement relating to tax-exempt debt, including any termination payment, the Governmental Entity shall consult with nationally recognized bond counsel as to whether there are any restrictions on the application or investment of such payment (unless the Governmental Entity has been advised previously by such counsel that no such restriction exists). A Governmental Entity required to make any payment under a Forward Purchase Agreement, including non-periodic payments, shall make such payment only from sources as are identified in the Forward Purchase Agreement and otherwise are legally available for such payment.

H. Educational Requirements.

As stated in Section V-D, any Governmental Entity proposing to enter into a Forward Purchase Agreement is responsible for understanding the risks associated with entering into such an agreement. The Chief Executive Officer and Chief Financial Officer of a Governmental Entity must obtain a basic understanding of the risks and benefits of entering into a Forward Purchase Agreement prior to requesting the approval of such an agreement by the Comptroller and should obtain professional advice to help analyze such risks and benefits to the extent deemed necessary by such Chief Executive Officer and Chief Financial Officer. Prior to submitting a request to enter into a Forward Purchase Agreement, either the Chief Executive Officer or the Chief Financial Officer of the requesting Governmental Entity shall be required to attend educational training approved by the Comptroller relative to Forward Purchase Agreements.

I. Information Sheet.

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Appendix B attached hereto and shall include such information as is necessary for the Comptroller to make a determination of compliance pursuant to these Guidelines.