TENNESSEE STATE FUNDING BOARD
November 17, 2016
12:30 p.m./Legislative Plaza – (Room LP-16)

AGENDA

1. Call Meeting to order

2. Approval of State Funding Board Minutes from September 21, 2016.

3. Presentation of Report for October Revenues: Commissioner Larry Martin, Finance and Administration

4. Revenue Estimating Presentations:

   Presenters:

   Mr. Lee Jones, Vice President and Regional Executive
   Federal Reserve Bank of Atlanta, Nashville Office

   Dr. William Fox, Professor of Economics
   Boyd Center for Business and Economic Research, UT

   Dr. Jon L. Smith, Director
   Bureau of Business and Economic Research, ETSU
   Dr. Joseph Newhard, Assistant Professor of Economics, ETSU

   Mr. Richard H. Roberts, Commissioner, Department of Revenue, State of Tennessee
   David Gerregano, Deputy Commissioner
   Kirk Johnson, Director of Research
   Dr. Michael House, Staff Economist

   Mr. Robert Currey, Assistant Director, Fiscal Review Committee

5. Lottery Revenue Estimating Presentations:

   Mr. Robert Currey, Assistant Director, Fiscal Review Committee
   Mr. Bojan Savic, Economist, Fiscal Review Committee

   Tennessee State Lottery Corporation:
   Ms. Rebecca Hargrove, President & CEO
   Mr. Andy Davis, Chief Financial and Technology Officer

   Mr. Tim Phelps, Associate Executive Director for Grant and Scholarship
   Programs, Tennessee Student Assistance Corporation

6. Request to the Board for consideration for program funding for the fiscal year 2017-2018 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B)

7. State Pooled Investment Fund (SPIF) and Intermediate Term Investment Fund (ITIF) Reports:

   Mr. Tim McClure, Assistant CIO/Director of Cash Management
   Department of the Treasury, State of Tennessee

8. Report From Tennessee Central Economic Authority (formerly Four Lake)
   Mr. Charly Lyons, President & CEO
   Mr. Michael Nesbitt, Tennessee Central Economic Authority Board Chairman & Smith County Mayor

9. Consideration and approval of Other Post Employment Benefits Trusts for:

- Knox County Post-Retirement Incentive Medical Trust
- Rockwood Electric Utility

Recess (To Reconvene November 29, 2016, at 10:00 a.m., Legislative Plaza, Room LP-29)

TENNESSEE STATE FUNDING BOARD
September 21, 2016

The Tennessee State Funding Board (the "Board") met on Wednesday, September 21, 2016, at 2:00 p.m., in the Legislative Plaza, Room LP-29, Nashville, Tennessee. The following members were present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable Justin Wilson, Comptroller of the Treasury
Commissioner Larry Martin, Department of Finance and Administration

The following members were absent:

The Honorable Bill Haslam, Governor
The Honorable David Lillard, State Treasurer

Seeing a physical quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the July 14, 2016, meeting. Commissioner Martin made a motion to approve the minutes. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Ms. Jamie Stitt, Deputy Assistant Commissioner of Business Development, Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Senior Advisor for Fiscal Policy, ECD, to present the "FastTrack Report to State Funding Board" ("the Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting, the FastTrack balance was $229,941,952.34. Since that time, $33,195.34 in interest was earned on the FastTrack fund; $23,727,244.00 in new loans had been approved and $144,001.01 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants or loans of $206,103,902.67 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of $143,834,035.46 resulting in an uncommitted FastTrack balance of $62,269,867.21. Mr. VanderMeer reported that the projects to be considered at this meeting totaled $8,626,382.00, and if these projects were approved, the uncommitted balance would be $53,643,485.21; and the committed balance would be $152,460,417.46, or 74.0% of FastTrack balance available for funding.

Ms. Stitt stated that the projects were being presented to the Board because state law required that FastTrack projects in amounts exceeding $750,000 per eligible business within any three-year period be reviewed and approved by the Board. Ms. Stitt then presented the following FastTrack projects:

- **Automation Tool Company – Cookeville (Putnam Co.)**
  FastTrack Economic Development $1,000,000.00

- **Chattanooga Seating Systems, L.L.C. – Chattanooga (Hamilton Co.)**
  FastTrack Job Training Assistance $ 611,652.00

- **Eurotranciatura USA LLC – Paris (Henry Co.)**
  FastTrack Job Training Assistance $ 42,000.00
  FastTrack Economic Development $ 650,000.00

- **Evergreen Packaging, Inc. – Memphis (Shelby Co.)**
  FastTrack Economic Development $1,050,000.00

- **Lowe's Home Centers, LLC – Coopertown (Robertson Co.)**

FastTrack Infrastructure Development	$ 742,500.00
FastTrack Economic Development	$3,000,000.00

- **Mullican Flooring – Johnson City (Washington Co.)**

FastTrack Economic Development	$1,000,000.00

- **Tenneco Automotive Operating Company, Inc. – Spring Hill (Maury Co.)**

FastTrack Job Training Assistance	$ 200,000.00
FastTrack Economic Development	$ 330,230.00

The Board received in their packets signed letters, FastTrack checklists, and incentive acceptance forms from the Commissioner of ECD. Mr. Hargett made a motion to approve the FastTrack projects that were presented. Mr. Wilson seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for approval a "Resolution Allocating from the Internal Service Fund to the Capital Projects Fund $4,380,000.00 and Canceling Authorized Bonds." Mr. Wilson explained that the Resolution was to cancel the bond authorization related to the Enterprise Resource Planning Software project, as was recommended in a memo from the Commissioner of Finance and Administration. Mr. Wilson made a motion to approve the Resolution effective as of the date of this meeting. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund $1,400,000.00 and Canceling Authorized Bonds." Mr. Wilson explained that the Resolution was to cancel the bond authorization related to the West Tennessee Megasite project, as was recommended in a memo from the Commissioner of Finance and Administration. Mr. Wilson made a motion to approve the Resolution effective as of the date of this meeting. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund $33.17 and Canceling Authorized Bonds." Mr. Wilson explained that the Resolution was to cancel the bond authorization related to State projects, as was recommended in a memo from the Commissioner of Finance and Administration. Mr. Wilson made a motion to approve the Resolution effective as of the date of this meeting. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then stated that item number 9 on the Agenda would be considered next. Mr. Wilson then presented for consideration and approval a revised Other Post Employment Benefit (OPEB) Trust for the Tennessee School Boards Association (TSBA). Mr. Wilson explained that the Trustees of the TSBA voted to change the name of the OPEB Trust and then submitted the revised OPEB Trust for TSBA to the Board for approval. Mr. Wilson made a motion to approve the OPEB Trust for TSBA. Mr. Hargett seconded the motion, and it was unanimously approved.

At this time, Mr. Hargett left the meeting. The remaining agenda items were report items only and did not require board approval, therefore a quorum was not necessary.

Mr. Wilson then recognized Ms. Sandra Thompson, Director of the Office of State and Local Finance and Assistant Secretary to the Board, who presented a report on the results of the sale of 2016 General Obligation Bonds. Ms. Thompson reported that the State sold three series of bonds: Series A tax-exempt new money bonds, Series B tax-exempt refunding bonds and Series C taxable refunding bonds. Ms.

Thompson stated that the par amount of the 2016 Series A bonds was $175,865,000.00, the par amount of the 2016 Series B refunding bonds was $124,900,000.00 and the par amount of the 2016 Series C refunding bonds was $63,385,000.00. Ms. Thompson reported that the 2016 Series A bonds generated a premium of $42,513,156.35 and the Series B refunding bonds generated a premium of $35,745,897.10. Ms. Thompson reported that the True Interest Cost was 2.29% for the Series A bonds, 2.00% for the Series B refunding bonds and 2.12% for the Series C refunding bonds. Ms. Thompson then stated that the net present value savings generated on the 2016 Series B refunding bonds was $15,148,862.02 or 10.93% of the refunded par amount of $138,650,000 and the net present value savings generated on the 2016 C refunding bonds was $7,659,549.67 or 13.68% of the refunded par amount of $55,995,000. No action was necessary.

Mr. Wilson then submitted the Report on Debt Obligation (CT-0253) for the State's 2016 bond sale. The Board accepted the CT-0253 and no further action was necessary.

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

Approved on this _____ day of _____ 2016.

Respectfully submitted,

Sandra Thompson
Assistant Secretary

Department of Finance & Administration

FOR IMMEDIATE RELEASE
Tuesday, November 15, 2016

CONTACT: Lola Potter
OFFICE: 615-532-8560

OCTOBER REVENUES

NASHVILLE, Tenn. – Tennessee revenues for October slightly exceeded revenues for the same time last year. Finance and Administration Commissioner Larry Martin today reported that revenues for October were $983.3 million, which is 1.29% more than October 2015, and $44.0 million in excess of the budgeted estimate.

"The sales tax, which is one of Tennessee's best economic indicators, recorded relatively moderate growth for October," Martin said. "Corporate revenues - franchise and excise taxes - recorded negative growth for the month. However, this is a normal occurrence in the state's business cycle for October, as this is when some corporate filers who may have over paid their tax liability in previous months are allowed to request a refund. Adjustments were consistent with our expectations."

On an accrual basis, October is the third month in the 2016-2017 fiscal year.

General fund revenues for October were $44.0 million more than the budgeted estimate, and the four other funds that share in state tax revenues were equal to the budgeted estimates.

Sales tax revenues were $37.5 million more than the estimate for October. The October growth rate was 4.52%. The year-to-date growth rate was 3.72%.

Franchise and excise combined revenues for October were $66.2 million which is $6.8 million more than the budgeted estimate of $59.4 million. The growth rate for October was negative 14.42%. The year-to-date growth rate was 14.04%.

Gasoline and motor fuel revenues decreased by 4.79% and they were $1.4 million less than the budgeted estimate of $73.2 million.

Motor Vehicle Registration revenues increased by 3.99% and they were $1.7 million more than the October estimate.

Tobacco tax revenues for the month were $0.2 million in excess of the budgeted estimate.

Privilege tax revenues were $2.0 million more than the budgeted estimate of $28.8 million.

Inheritance and Estate taxes were $1.7 million less than the October estimate.

– MORE –

Business tax revenues were $1.6 million less than the October estimate.

Hall income taxes were $0.3 million less than the October estimate.

All other tax revenues were more than estimates by a net of $0.8 million.

Year-to-date revenues for three months were $198.6 million more than the budgeted estimate. The general fund was over estimates by $183.9 million and the four other funds that share in state tax revenues exceeded estimates by $14.7 million.

The budgeted revenue estimates for 2016-2017 are based on the State Funding Board's consensus recommendation of November 23, 2015 and adopted by the second session of the 109th General Assembly in April 2016. Also incorporated in the estimates are any changes in revenue enacted during the 2016 session of the General Assembly. These estimates are available on the state's website at http://www.tn.gov/finance/article/fa-budget-rev.

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Table 1
Revenue Collections by Fund
October
2016-2017

Fund	2016 Actual	2016 Budgeted	2016 B/(W)	2016 Percent	2015 Actual	2016 B/(W)	2016 Percent
General Fund	$818,924,000	$774,913,000	$44,011,000	5.68%	$805,973,000	$12,951,000	1.61%
Highway Fund	56,598,000	57,902,000	(1,304,000)	-2.25%	54,333,000	2,265,000	4.17%
Sinking Fund	34,201,000	33,871,000	330,000	0.97%	34,384,000	(183,000)	-0.53%
City & County Fund	70,007,000	69,036,000	971,000	1.41%	72,493,000	(2,486,000)	-3.43%
Earmarked Fund	3,582,000	3,582,000	0	0.00%	3,583,000	(1,000)	-0.03%
Total	**$983,312,000**	**$939,304,000**	**$44,008,000**	**4.69%**	**$970,766,000**	**$12,546,000**	**1.29%**

Revenue Collections by Tax
October
2016-2017

Tax Source	2016 Actual	2016 Budgeted	2016 B/(W)	2016 Percent	2015 Actual	2016 B/(W)	2016 Percent
Franchise & Excise	$66,226,000	$59,400,000	$6,826,000	11.49%	$77,385,000	($11,159,000)	-14.42%
Income	4,655,000	4,999,000	(344,000)	-6.88%	6,455,000	(1,800,000)	-27.89%
Inheritance & Estate	(485,000)	1,201,000	(1,686,000)	-140.38%	3,490,000	(3,975,000)	-113.90%
Gasoline	49,470,000	51,500,000	(2,030,000)	-3.94%	53,571,000	(4,101,000)	-7.66%
Petroleum Special	5,262,000	5,428,000	(166,000)	-3.06%	5,513,000	(251,000)	-4.55%
Tobacco	22,686,000	22,445,000	241,000	1.07%	21,893,000	793,000	3.62%
Beer	1,540,000	1,484,000	56,000	3.77%	1,595,000	(55,000)	-3.45%
Motor Vehicle Registration	22,054,000	20,340,000	1,714,000	8.43%	21,207,000	847,000	3.99%
Motor Vehicle Title	2,022,000	1,643,000	379,000	23.07%	1,919,000	103,000	5.37%
Mixed Drink	8,371,000	7,386,000	985,000	13.34%	7,554,000	817,000	10.82%
Business	5,207,000	6,792,000	(1,585,000)	-23.34%	6,749,000	(1,542,000)	-22.85%
Privilege	30,766,000	28,807,000	1,959,000	6.80%	28,784,000	1,982,000	6.89%
Gross Receipts	17,000	148,000	(131,000)	-88.51%	287,000	(270,000)	-94.08%
TVA - In Lieu of Tax Payments	27,827,000	29,016,000	(1,189,000)	-4.10%	28,454,000	(627,000)	-2.20%
Alcoholic Beverage	5,383,000	4,576,000	807,000	17.64%	5,222,000	161,000	3.08%
Sales and Use	715,111,000	677,661,000	37,450,000	5.53%	684,195,000	30,916,000	4.52%
Motor Vehicle Fuel	17,093,000	16,275,000	818,000	5.03%	16,354,000	739,000	4.52%
Severance	104,000	195,000	(91,000)	-46.67%	136,000	(32,000)	-23.53%
Coin-operated Amusement	3,000	8,000	(5,000)	-62.50%	3,000	0	0.00%
Unauthorized Substance	0	0	0	NA	0	0	NA
Total	**$983,312,000**	**$939,304,000**	**$44,008,000**	**4.69%**	**$970,766,000**	**$12,546,000**	**1.29%**

Table 2
Revenue Collections by Fund
Year-to-Date
August - October
2016-2017

Fund	2016 - 2017 Actual	2016 - 2017 Budgeted	2016 - 2017 B/(W)	2016 - 2017 Percent	2015-2016 Actual	2016-2017 B/(W)	2016-2017 Percent
General Fund	2,671,751,000	$2,487,849,000	$183,902,000	7.39%	$2,557,626,000	$114,125,000	4.46%
Highway Fund	179,121,000	171,928,000	7,193,000	4.18%	176,491,000	2,630,000	1.49%
Sinking Fund	102,290,000	101,478,000	812,000	0.80%	102,760,000	(470,000)	-0.46%
City & County Fund	279,656,000	272,944,000	6,712,000	2.46%	254,872,000	24,784,000	9.72%
Earmarked Fund	10,749,000	10,749,000	0	0.00%	10,750,000	(1,000)	-0.01%
Total	**$3,243,567,000**	**$3,044,948,000**	**$198,619,000**	**6.52%**	**$3,102,499,000**	**$141,068,000**	**4.55%**

Revenue Collections by Tax
Year-to-Date
August - October
2016-2017

Tax Source	2016 - 2017 Actual	2016 - 2017 Budgeted	2016 - 2017 B/(W)	2016 - 2017 Percent	2015-2016 Actual	2016-2017 B/(W)	2016-2017 Percent
Franchise & Excise	$513,139,000	$420,300,000	$92,839,000	22.09%	$449,974,000	$63,165,000	14.04%
Income	4,006,000	8,339,000	(4,333,000)	-51.96%	11,031,000	(7,025,000)	-63.68%
Inheritance & Estate	8,142,000	4,266,000	3,876,000	90.86%	17,041,000	(8,899,000)	-52.22%
Gasoline	164,944,000	158,679,000	6,265,000	3.95%	166,581,000	(1,637,000)	-0.98%
Petroleum Special	16,975,000	16,657,000	318,000	1.91%	16,952,000	23,000	0.14%
Tobacco	66,705,000	66,832,000	(127,000)	-0.19%	66,076,000	629,000	0.95%
Beer	4,746,000	4,508,000	238,000	5.28%	4,786,000	(40,000)	-0.84%
Motor Vehicle Registration	66,003,000	61,391,000	4,612,000	7.51%	63,885,000	2,118,000	3.32%
Motor Vehicle Title	6,115,000	4,757,000	1,358,000	28.55%	4,970,000	1,145,000	23.04%
Mixed Drink	25,183,000	22,278,000	2,905,000	13.04%	23,000,000	2,183,000	9.49%
Business	17,306,000	13,123,000	4,183,000	31.88%	13,039,000	4,267,000	32.72%
Privilege	79,330,000	79,363,000	(33,000)	-0.04%	77,302,000	2,028,000	2.62%
Gross Receipts	14,374,000	16,307,000	(1,933,000)	-11.85%	8,774,000	5,600,000	63.82%
TVA - In Lieu of Tax Payments	91,739,000	93,857,000	(2,118,000)	-2.26%	92,826,000	(1,087,000)	-1.17%
Alcoholic Beverage	15,320,000	13,871,000	1,449,000	10.45%	14,200,000	1,120,000	7.89%
Sales and Use	2,103,627,000	2,017,143,000	86,484,000	4.29%	2,028,176,000	75,451,000	3.72%
Motor Vehicle Fuel	45,556,000	42,652,000	2,904,000	6.81%	43,416,000	2,140,000	4.93%
Severance	332,000	574,000	(242,000)	-42.16%	435,000	(103,000)	-23.68%
Coin-operated Amusement	25,000	51,000	(26,000)	-50.98%	35,000	(10,000)	-28.57%
Unauthorized Substance	0	0	0	NA	0	0	NA
Total	**$3,243,567,000**	**$3,044,948,000**	**$198,619,000**	**6.52%**	**$3,102,499,000**	**$141,068,000**	**4.55%**

FEDERAL RESERVE BANK of ATLANTA

Tennessee State Funding Board

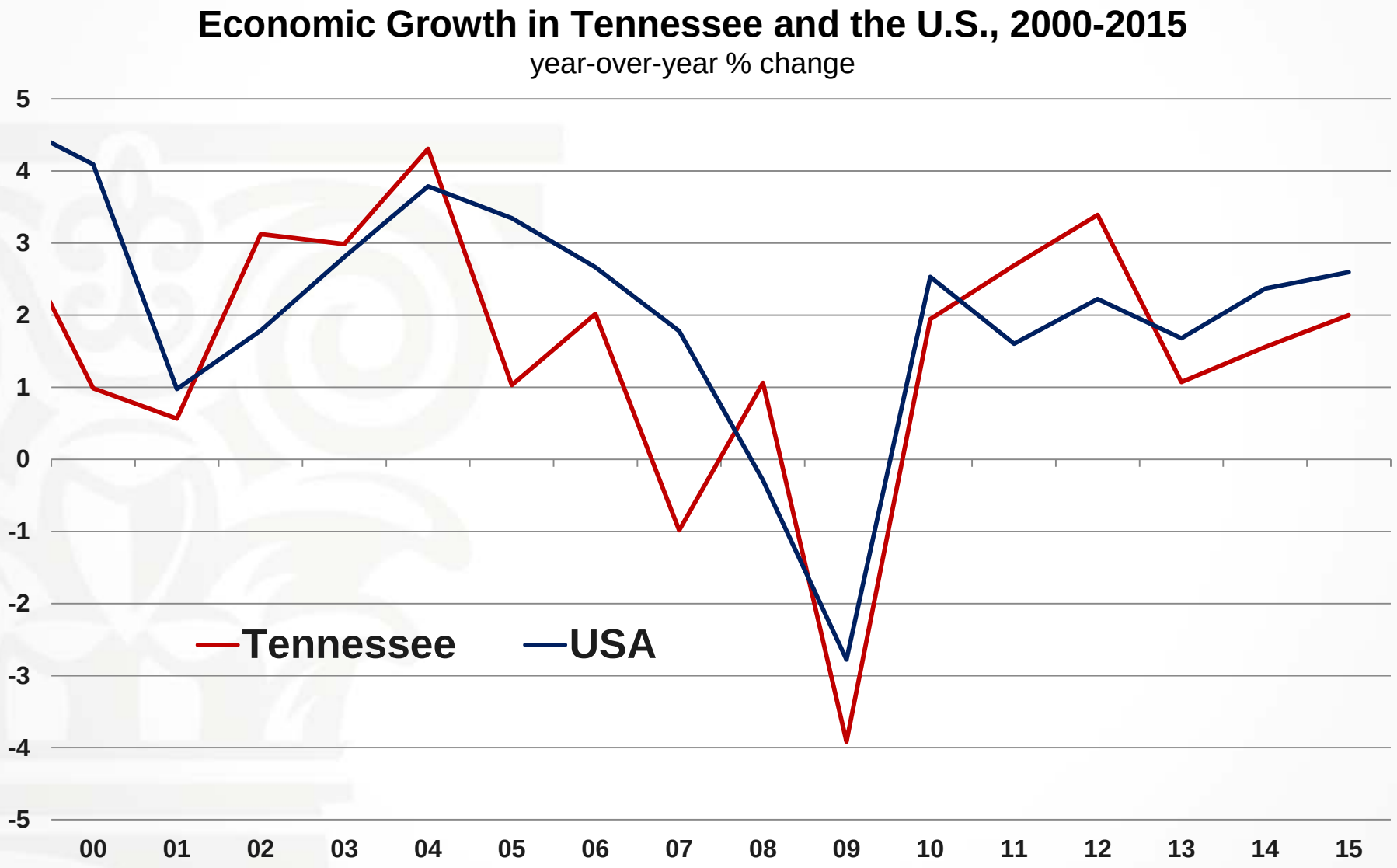
November 17, 2016

Lee Jones

Regional Executive - Tennessee

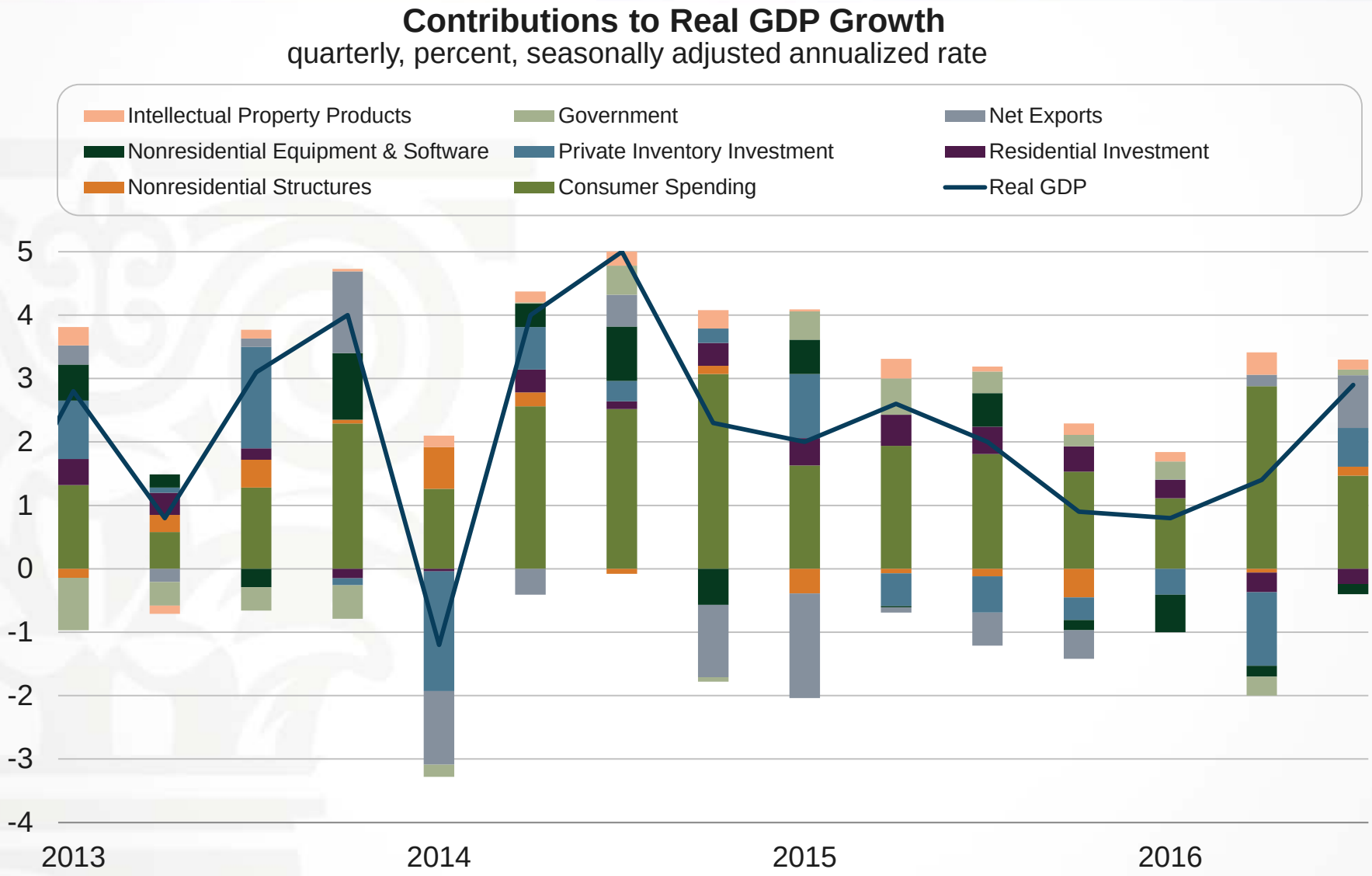
The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

Tennessee's economic performance continues to closely mirror that of the United States



Source: Bureau of Economic Analysis

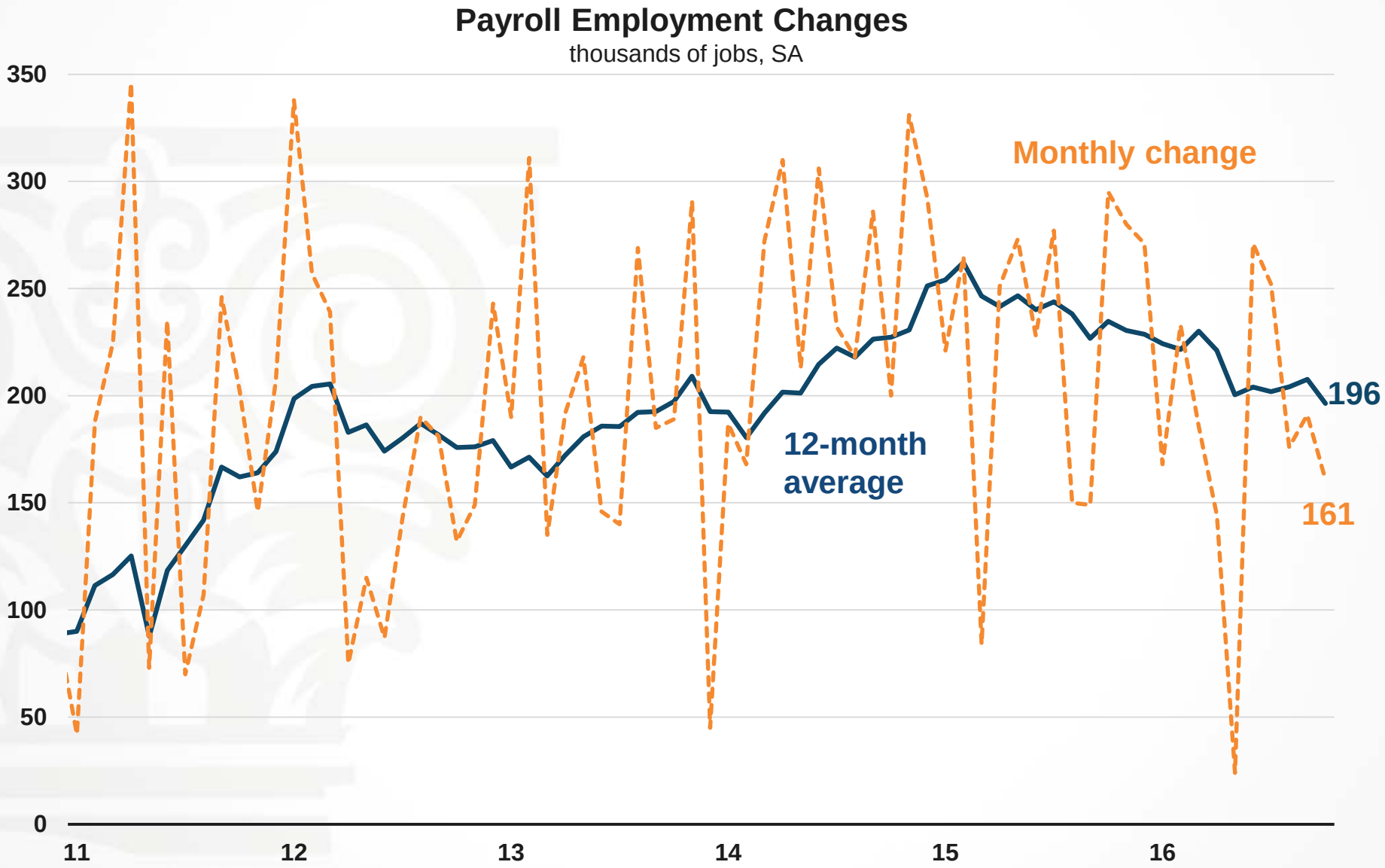
After several lackluster quarters, Real Gross Domestic Product grew 2.9% in Q3 2016, the largest quarterly gain in two years. Consumer spending (green) continues to be key to GDP growth.



Source: Bureau of Economic Analysis

through Q3 2016

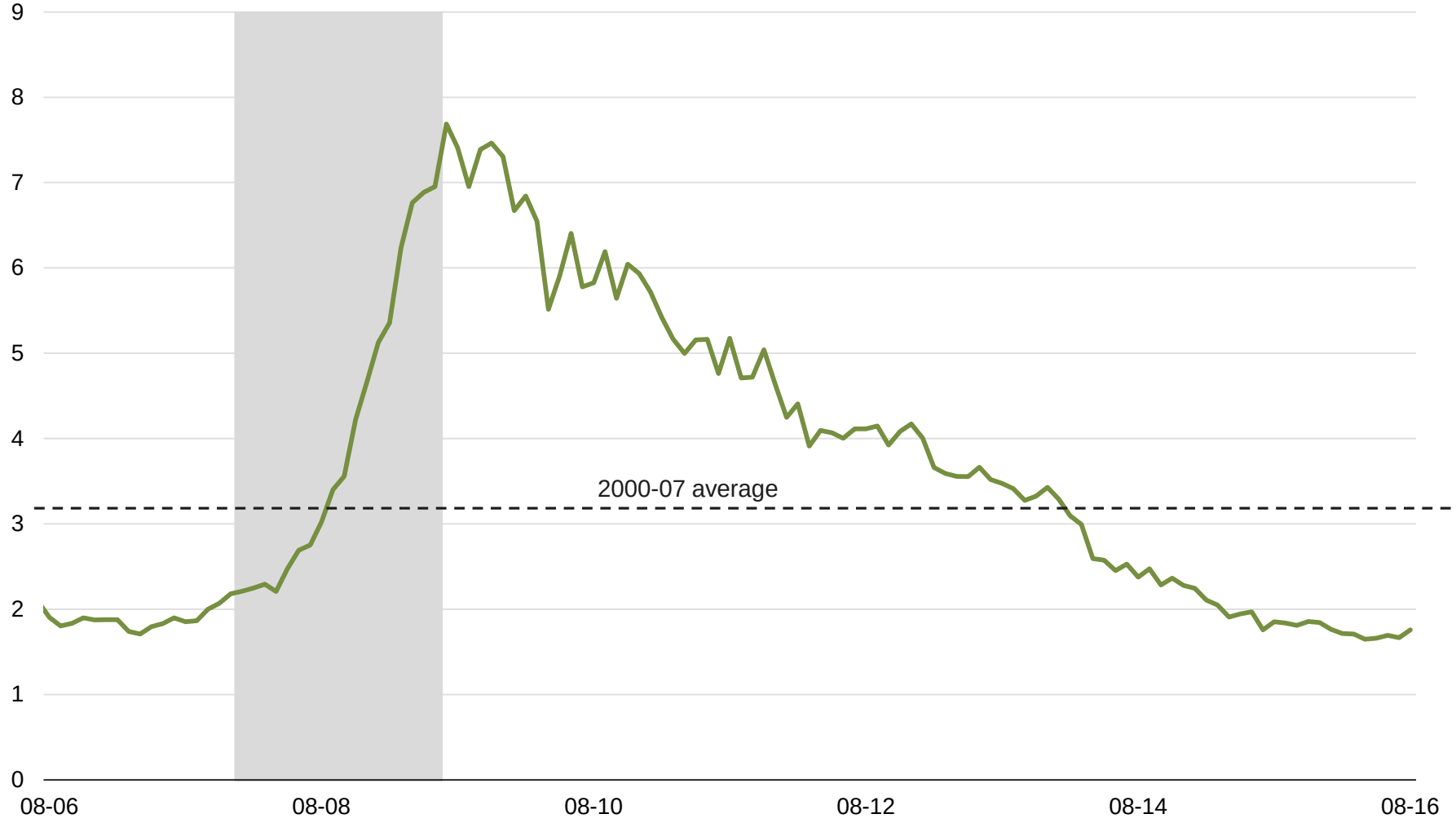
The U.S. economy added a net 161,000 new jobs in October, well above the threshold needed to continue to make progress in the labor market.



Source: Bureau of Labor Statistics

through October 2016

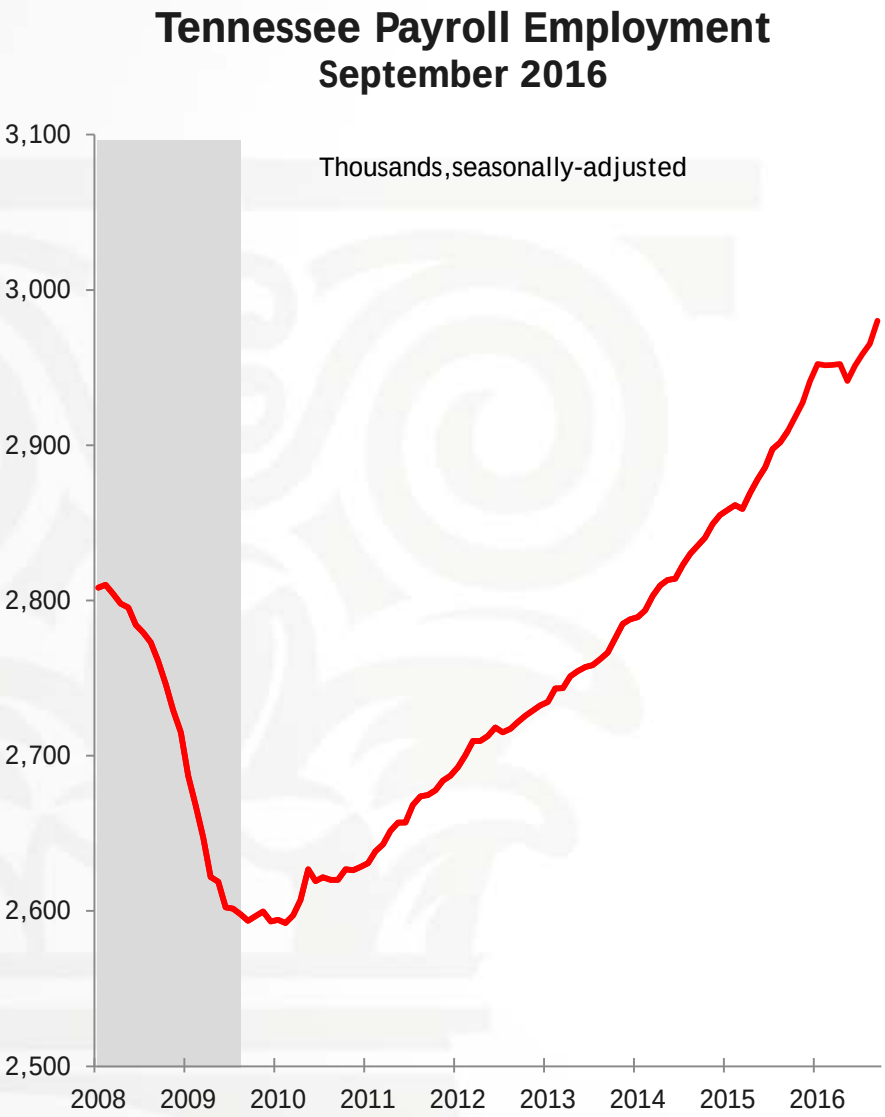
The number of workers per job opening has fallen below its pre-crises average, suggesting that the economy may be nearing "full employment."

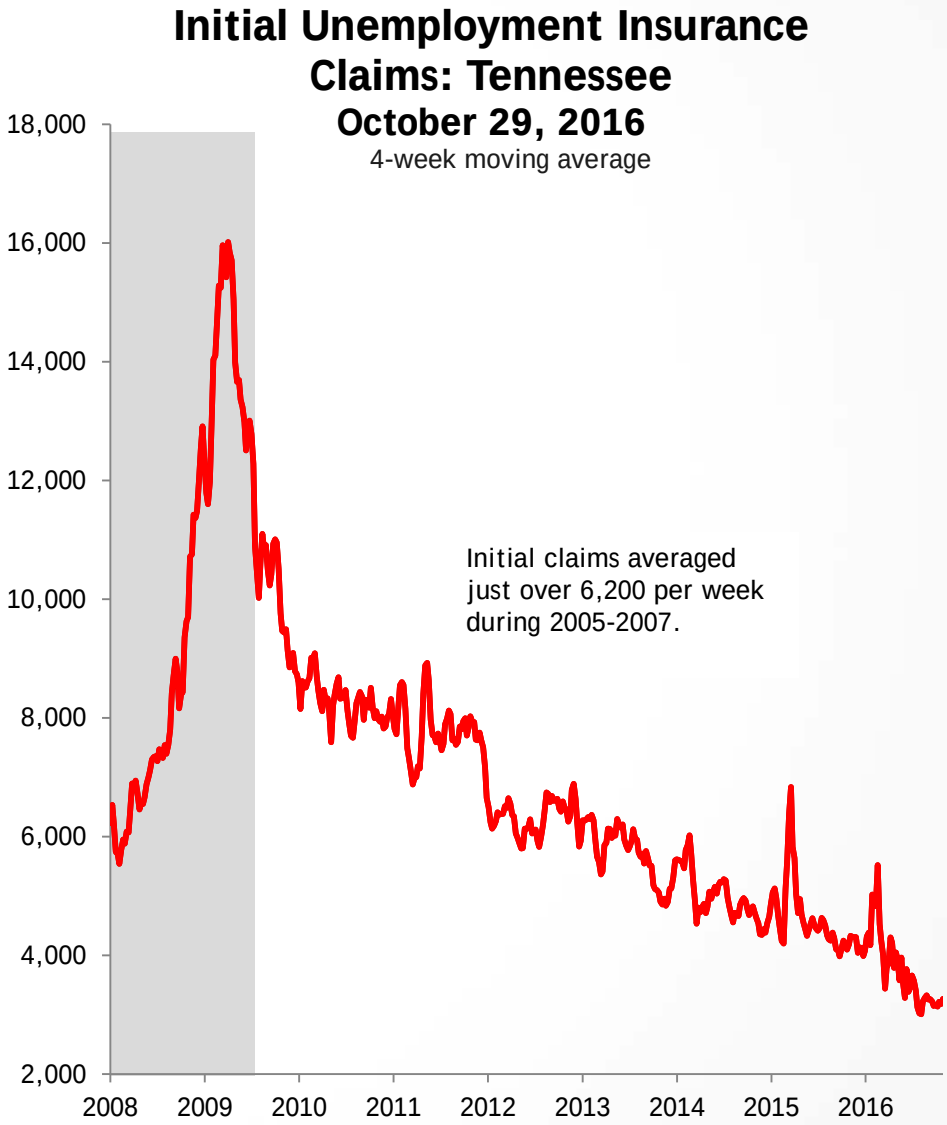


Sources: Job Openings and Labor Turnover Survey, BLS

through August 2016

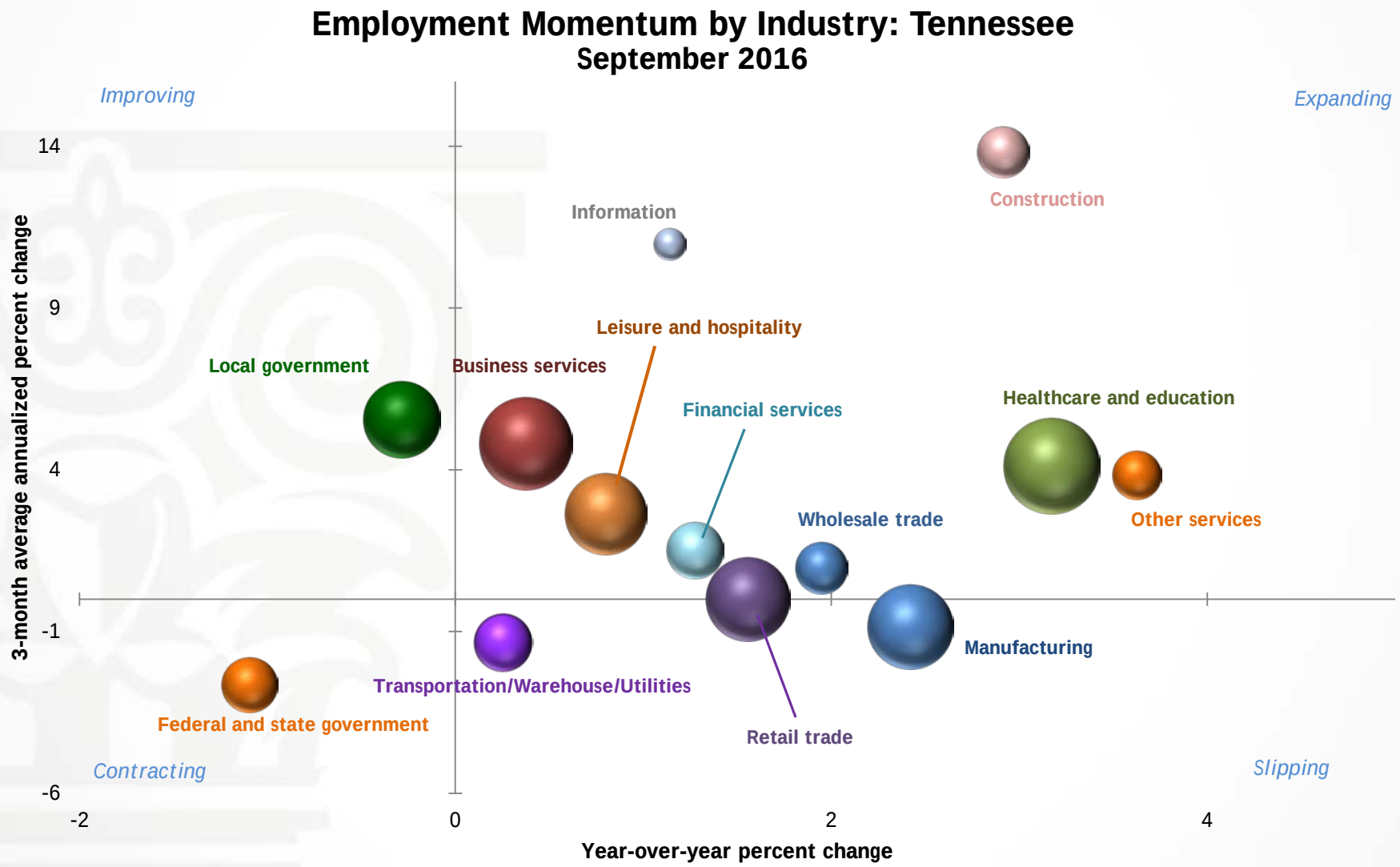
In Tennessee, both payroll employment and initial unemployment insurance claims have slowly returned to and surpassed pre-recession levels and continue to show signs of improvement





Source: U.S. Bureau of Labor Statistics, Haver Analytics

Employment growth momentum in Tennessee has been positive, with employment in most industries expanding over both the past 3 and 12 months



Source: U.S. Bureau of Labor Statistics, Haver Analytics, Federal Reserve Bank of Atlanta

Wage growth over the past year and a half has accelerated moderately, perhaps another sign that labor market conditions are tightening.

Sources: Bureau of Labor Statistics; Atlanta Fed

Wage tracker through Sept 2016; AHE through Sept 2016

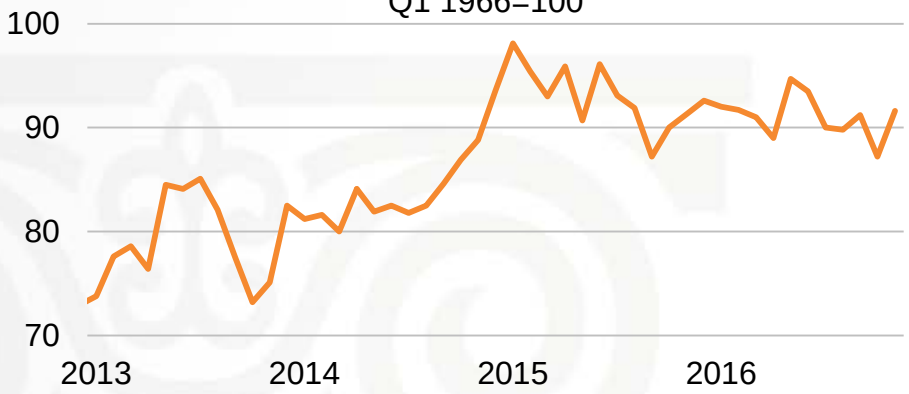
The wage acceleration is more pronounced when we look at pay for individuals in the same positions.

Sources: Bureau of Labor Statistics; Atlanta Fed

Wage tracker through Sept 2016; AHE through Sept 2016

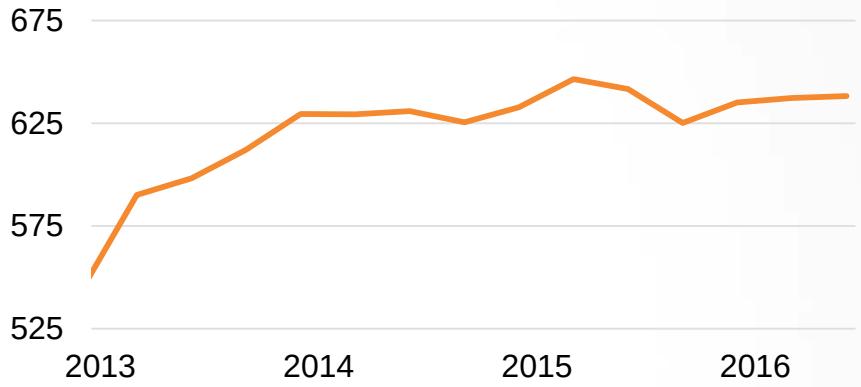
Looking at a variety of indicators, the fundamentals for consumer spending appear favorable overall.

University of Michigan Consumer Sentiment Index
Q1 1966=100



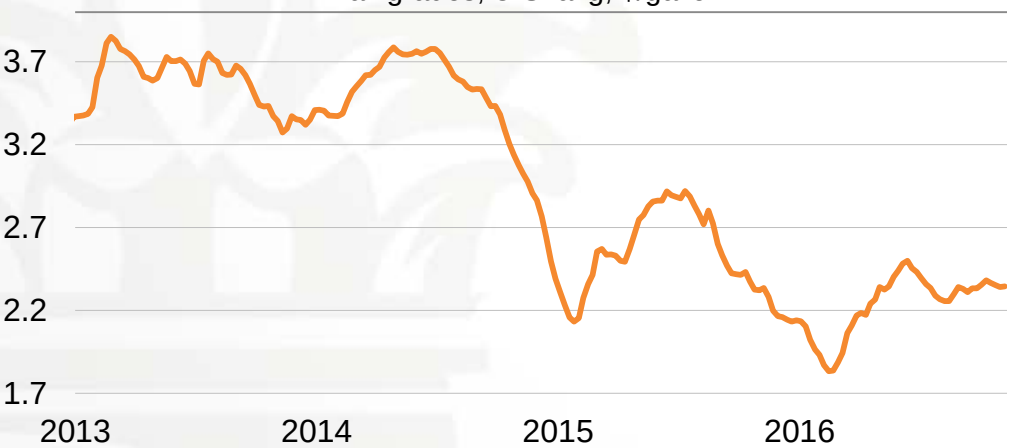
Source: University of Michigan Survey of Consumers through November 2016

Household Wealth as a Percent of Disposable Personal Income



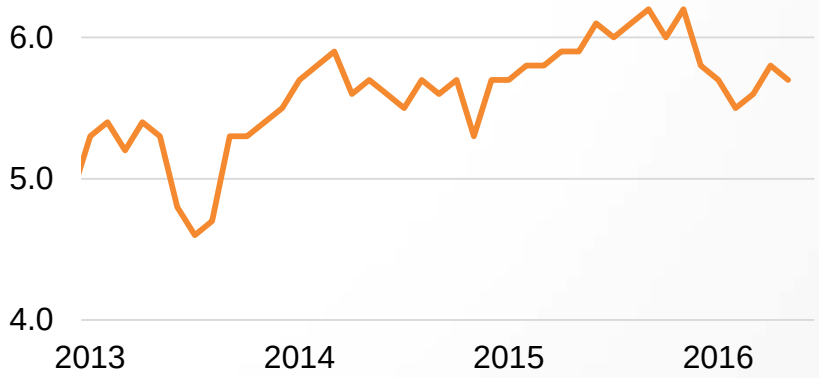
Source: Federal Reserve Board through Q2 2016

Retail Gasoline Price
all grades, U.S. avg, $/gallon



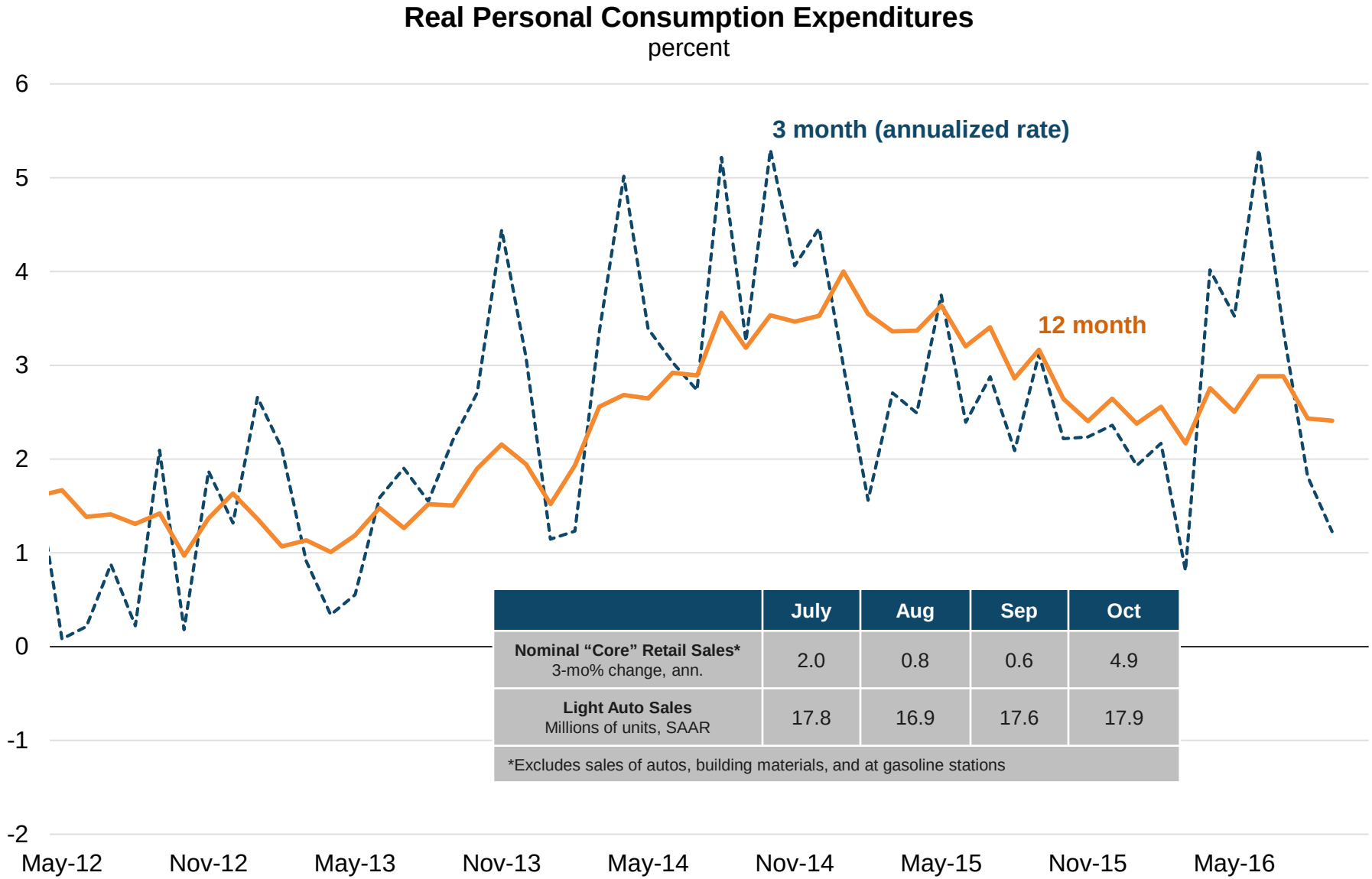
Source: Energy Information Administration through November 7, 2016

Personal Savings Rate
percent



Source: Bureau of Economic Analysis through September 2016

The trend in consumption growth continues to look positive and, following a few months of weaker readings, October's core retail sales numbers showed some welcome strength. Total vehicle sales have leveled off in recent months.



	July	Aug	Sep	Oct
Nominal "Core" Retail Sales* 3-mo% change, ann.	2.0	0.8	0.6	4.9
Light Auto Sales Millions of units, SAAR	17.8	16.9	17.6	17.9

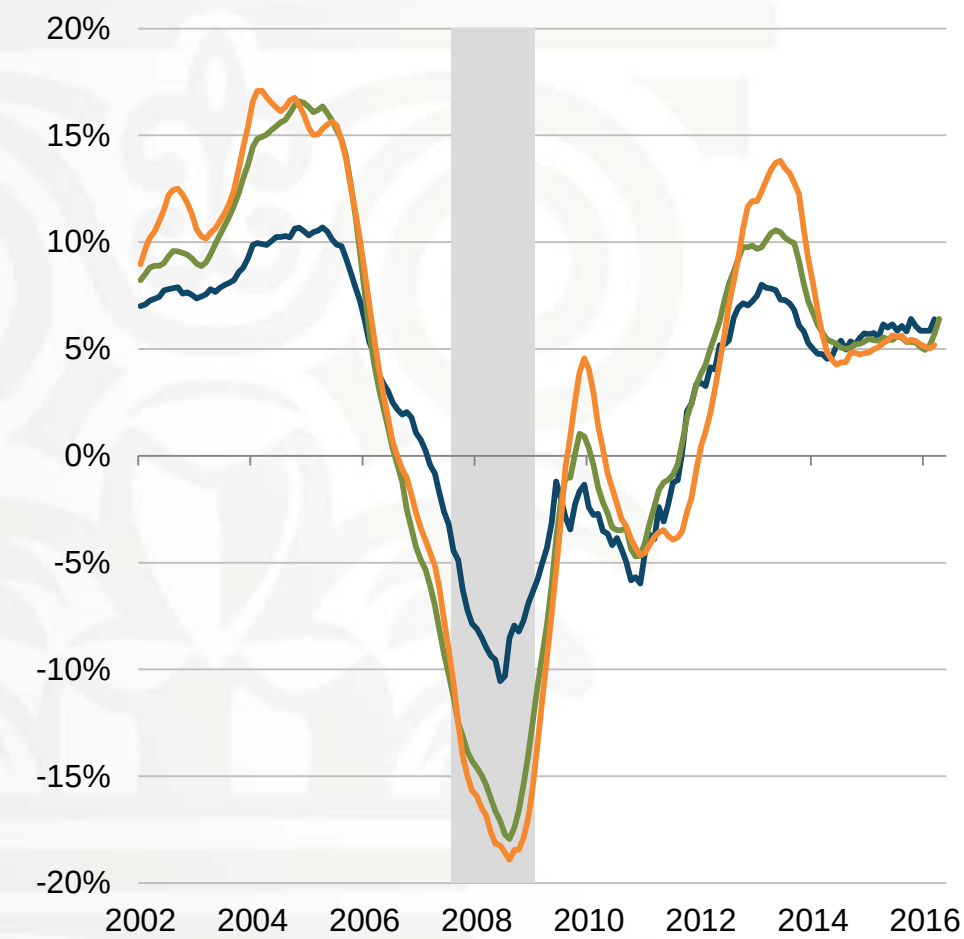
*Excludes sales of autos, building materials, and at gasoline stations

Source: Bureau of Economic Analysis

through September 2016

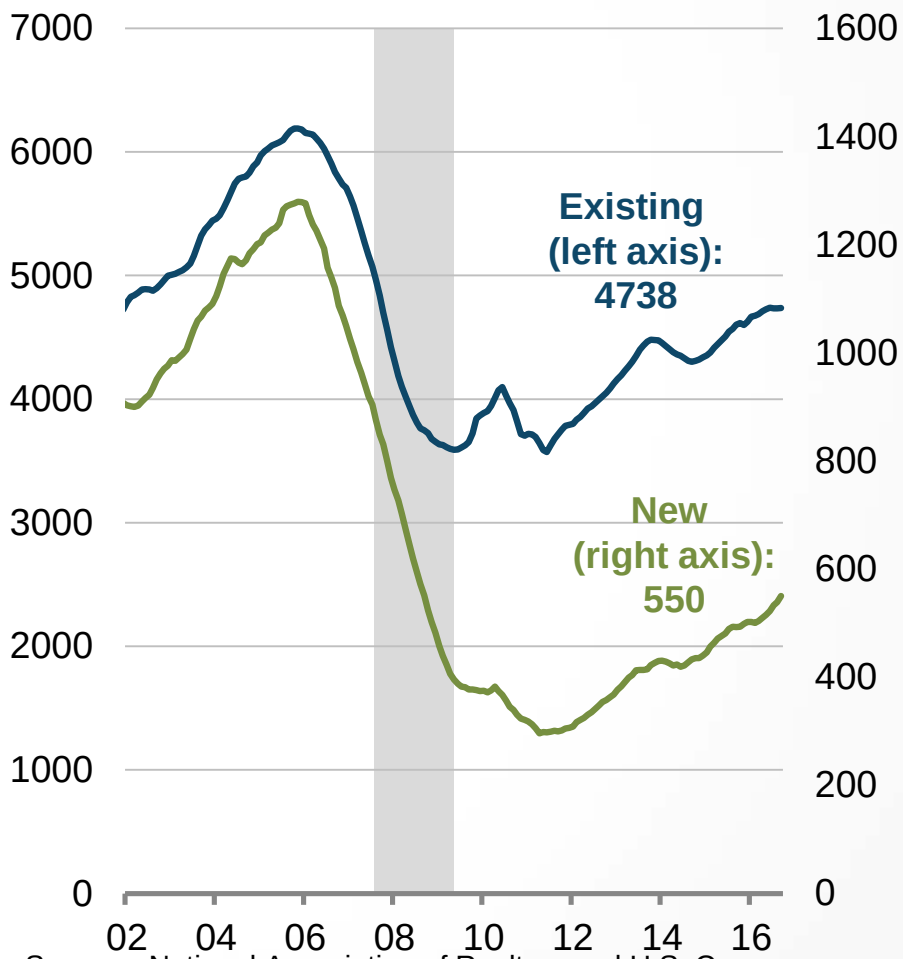
The housing market continues to expand, with home prices besting inflation and with sales of both new and existing homes continuing to grow at a slow, steady pace.

U.S. House Prices
monthly index, year-over-year percent change



FHFA and S&P/Case-Shiller through August, CoreLogic through September 2016

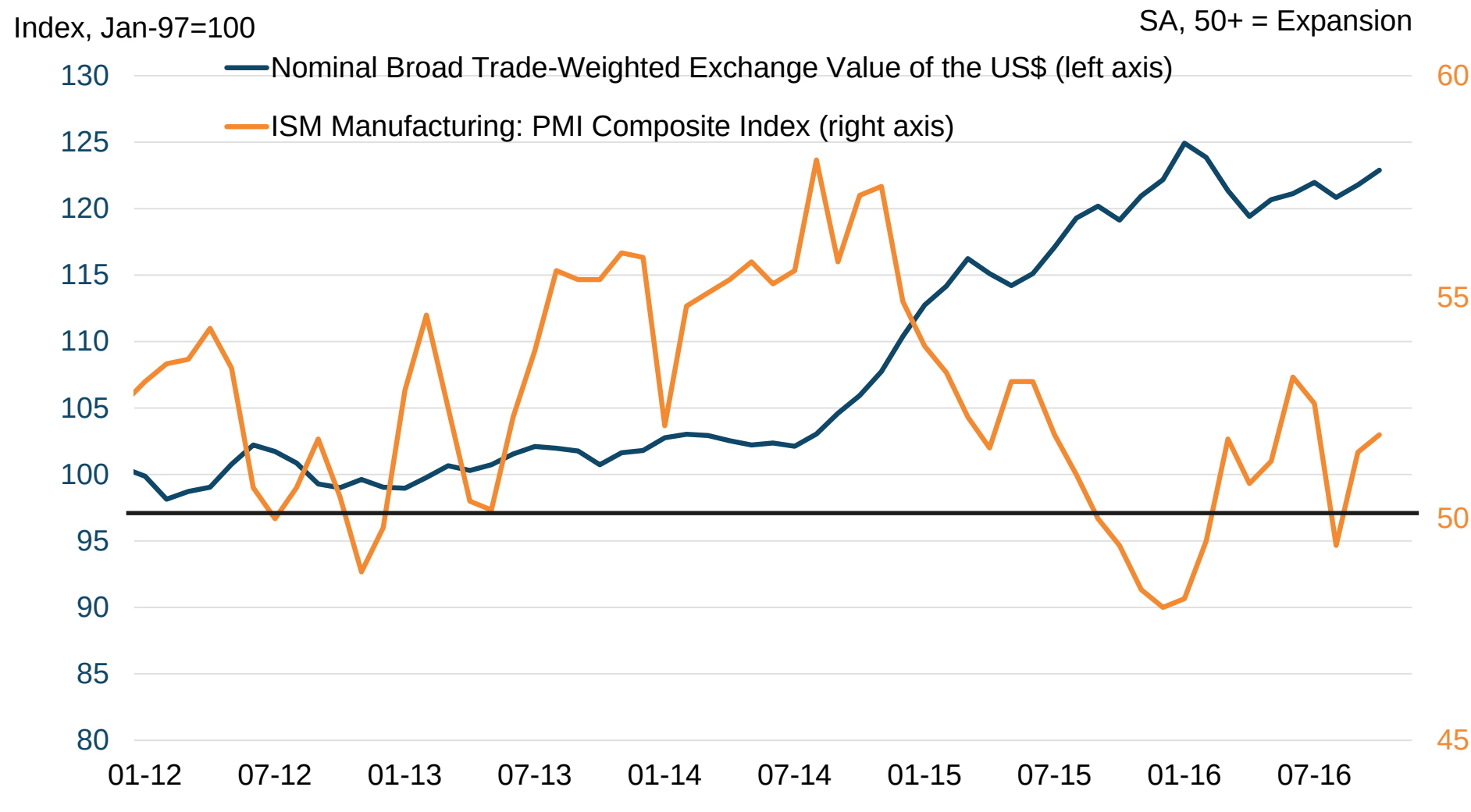
U.S. Single Family Homes Sales
12-month moving average, thousands SAAR



Sources: National Association of Realtors and U.S. Census Bureau through September 2016

The manufacturing sector has struggled over the past two years in the midst of a shrinking energy sector and broad appreciation of the dollar compared to US trading partners' currencies.

The Dollar and the Manufacturing Sector



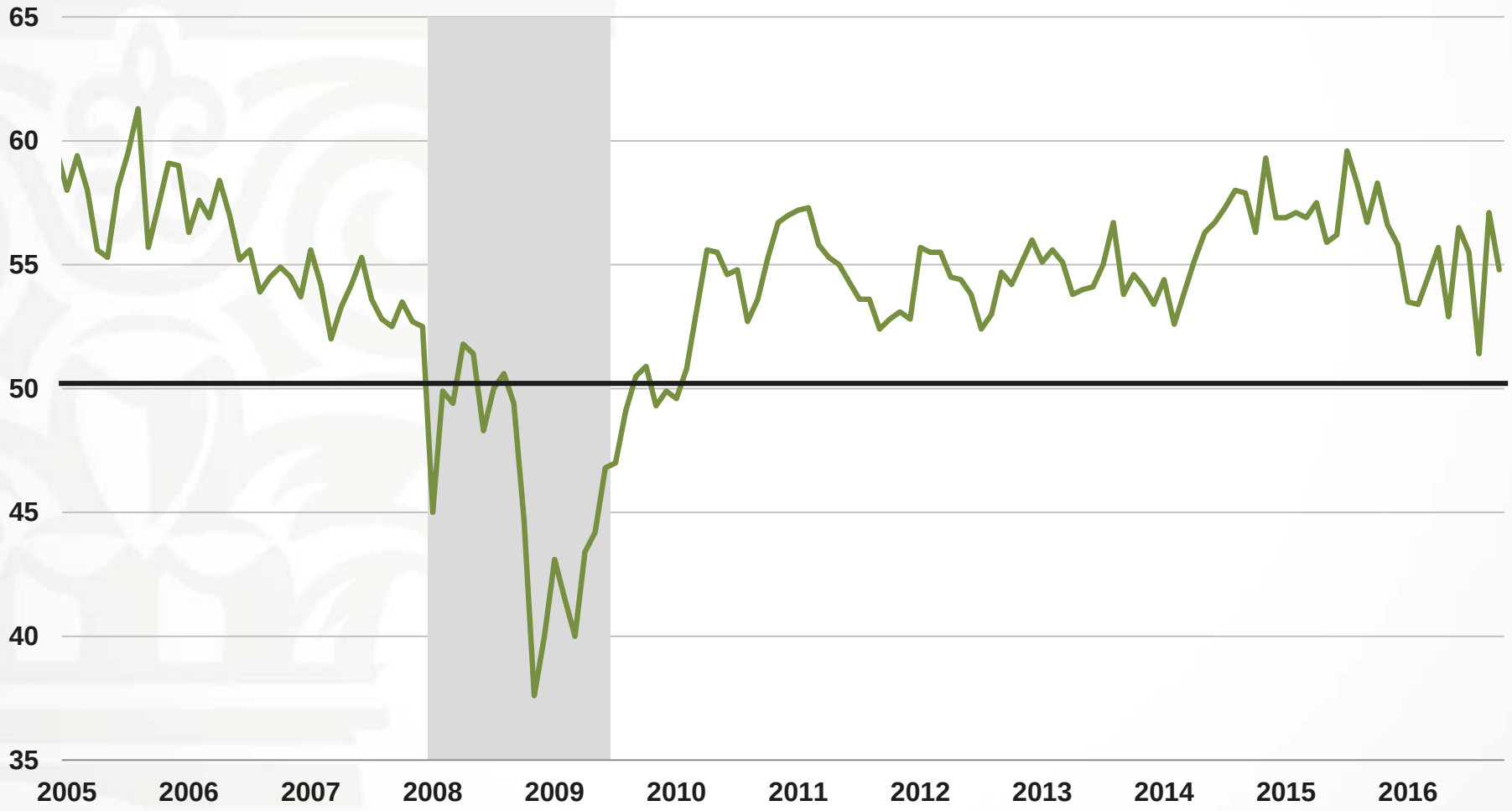
Source: Federal Reserve Board; Institute for Supply Management

Data through October 2016

The services sector, which makes up a much larger share of the US economy (80%), appears to be healthy and expanding.

ISM Non-Manufacturing Index

seasonally adjusted, index, 50 or greater indicates expansion, less than 50 indicates contraction

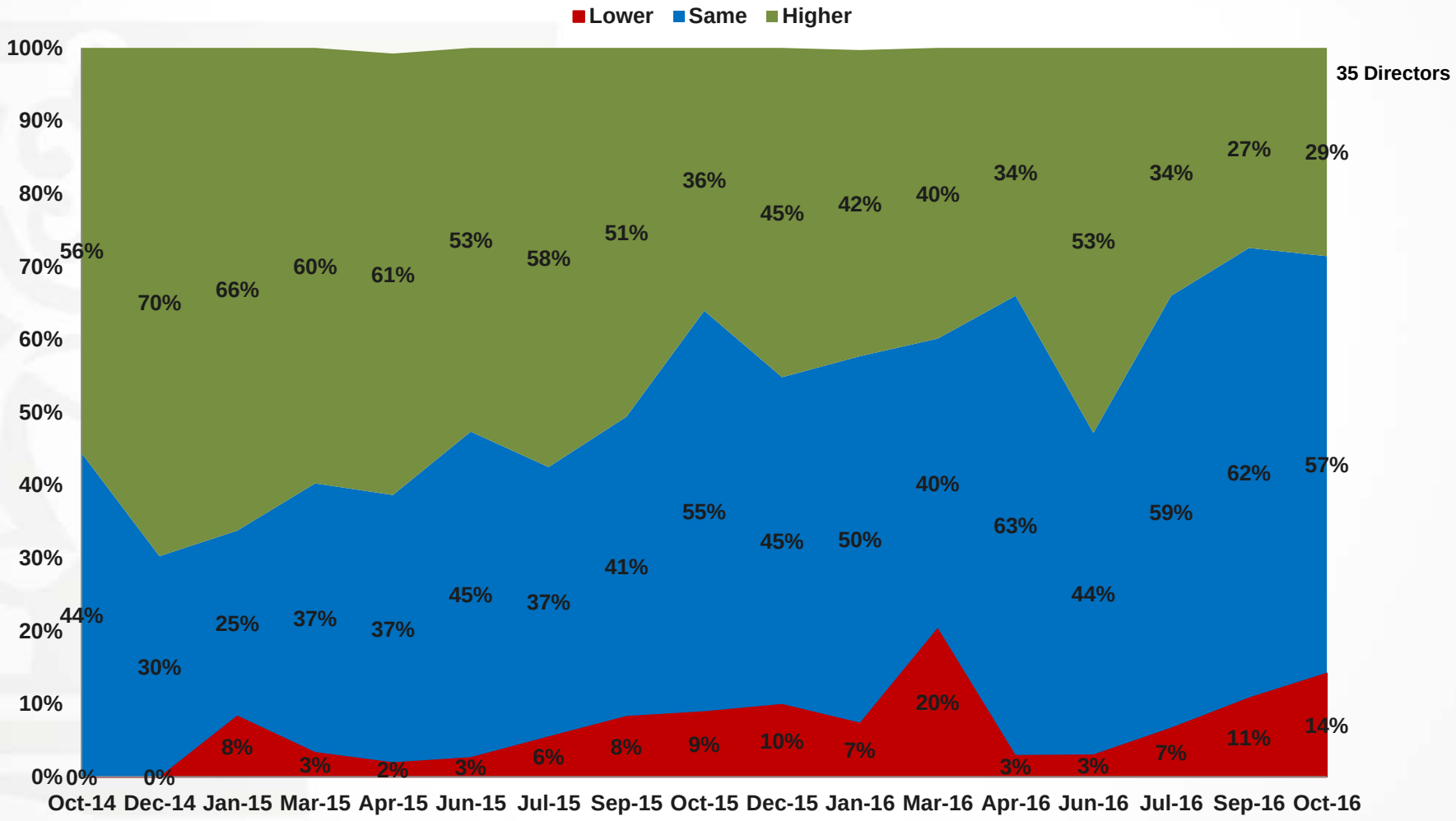


Source: Institute for Supply Management

through October 2016

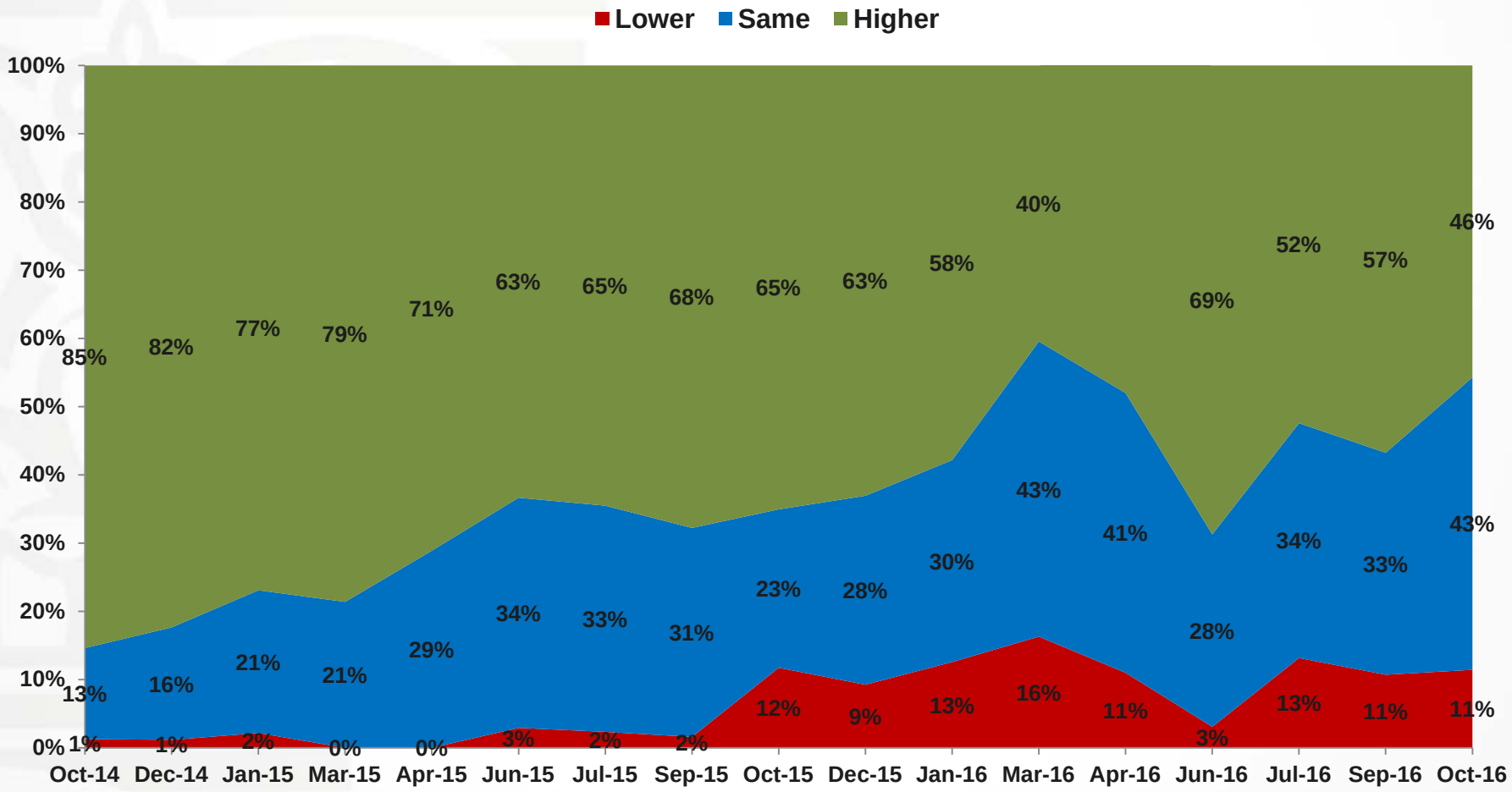
Our directors' optimism with respect to the short-term outlook for their businesses has been steadily waning, as evidenced by a shift from expecting growth to accelerate (green) to expecting the same (blue) or declining (red) rates of growth.

What is your outlook for the rate of growth in your business over the next 3 to 6 months compared to current rates?



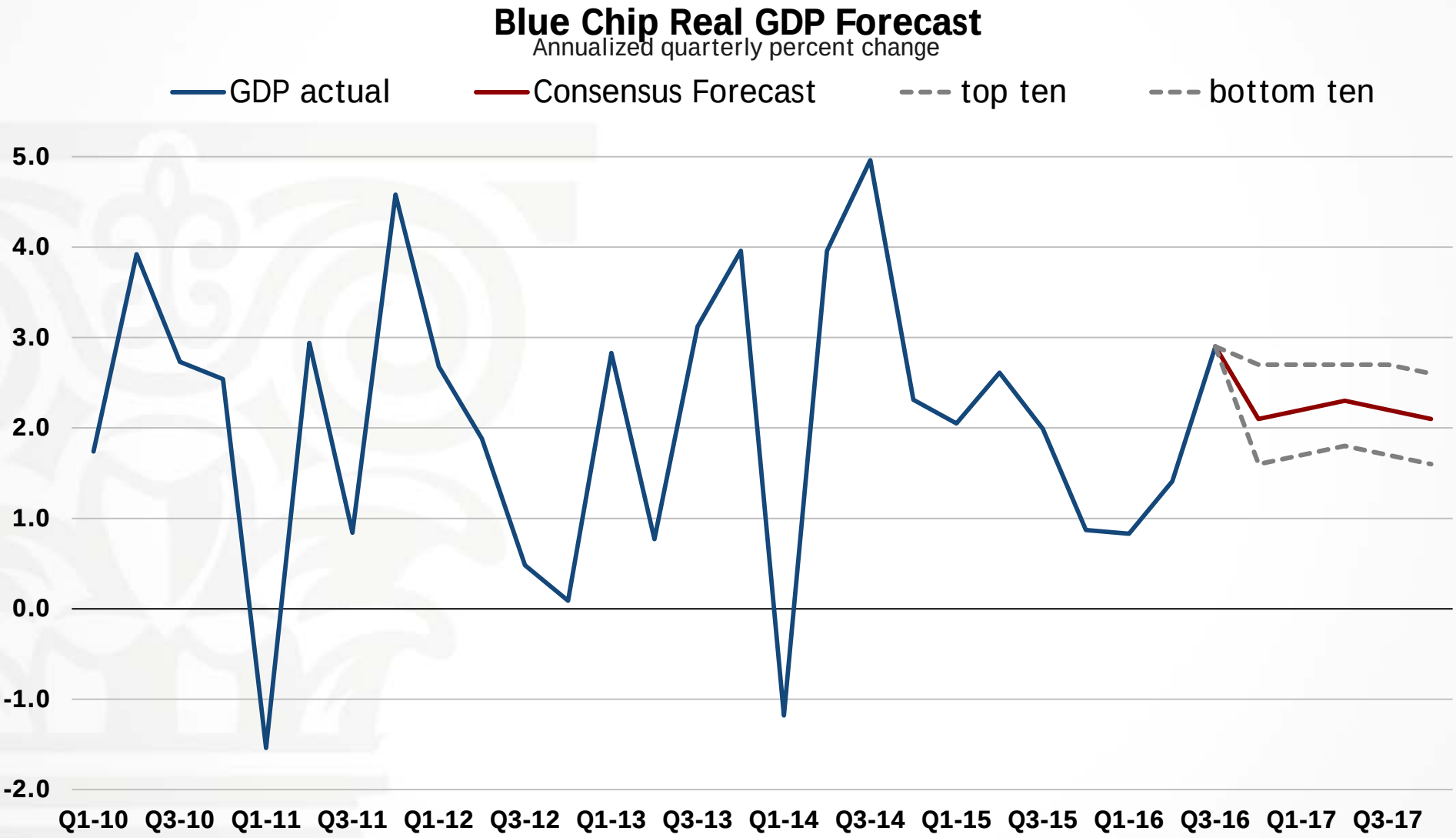
While slippage has also occurred with respect to directors' medium-term outlooks for the rate of growth in their businesses, about half continue to expect their rate of growth to accelerate.

What is your medium-term outlook (over the next two to three years) for the rate of growth in your business compared to current rates?



Source: FRB Atlanta

With respect to the outlook for the economy going forward, private economists expect GDP to expand at roughly 2.2% through the end of next year



Source: Blue Chip panel of economists, November 10, 2016

Dennis Lockhart's perspective

"For me there is a relatively high bar in pure economic terms for not moving in December."

"Post-election we may end up with enough turmoil around the election to create a different set of conditions– there are other things that go on in the world that can give pause, and I don't completely rule those out."

- Atlanta Fed President Dennis Lockhart, 11/4/2016

What we're hearing anecdotally from Tennessee business contacts:

Cautious optimism from domestically oriented contacts; businesses whose activity is tied to foreign demand are facing sizeable headwinds

On balance, Tennessee businesses contacts are moderately optimistic about the growth of activity next year.

Specifically:

- **Firms that derive most of their sales domestically are generally fairly optimistic.**
- **The strong dollar and muted global demand continue to weigh on growth expectations for many foreign-oriented companies.**
- **Travel and tourism activity remains a bright spot.**
- **Real estate fundamentals continue to be positive.**
- **Even with declines in some input costs, many businesses have been able to hold the line on prices, supporting margins.**
- **Employment trends continue to be positive, though trend varies by industry, skill and geography**

FEDERAL RESERVE BANK of ATLANTA

Tennessee State Funding Board

November 17, 2016

Lee Jones

Regional Executive - Tennessee

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

Tennessee Economic Outlook and Tax Revenues

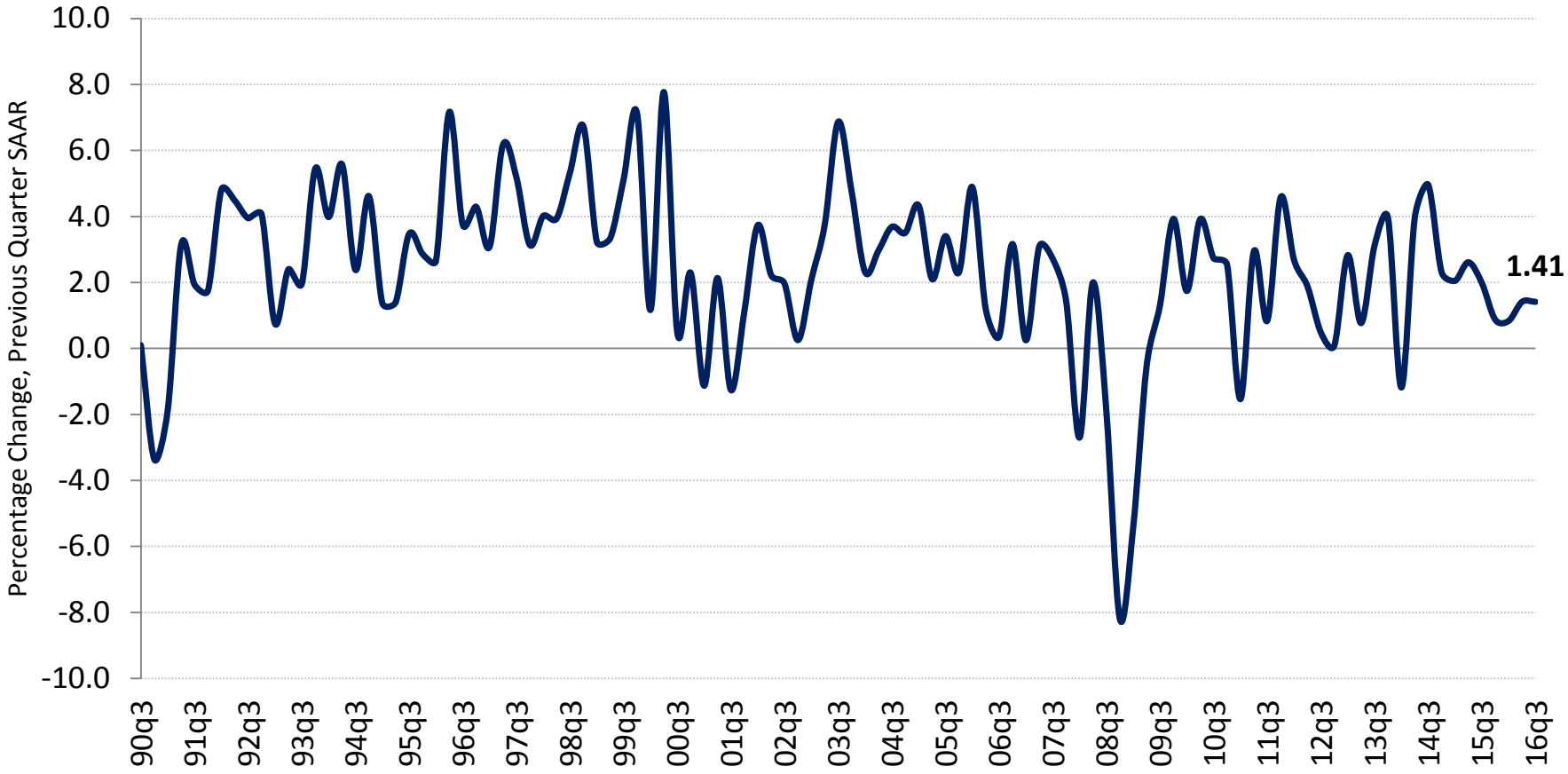
William F. Fox, Director

November 17, 2016

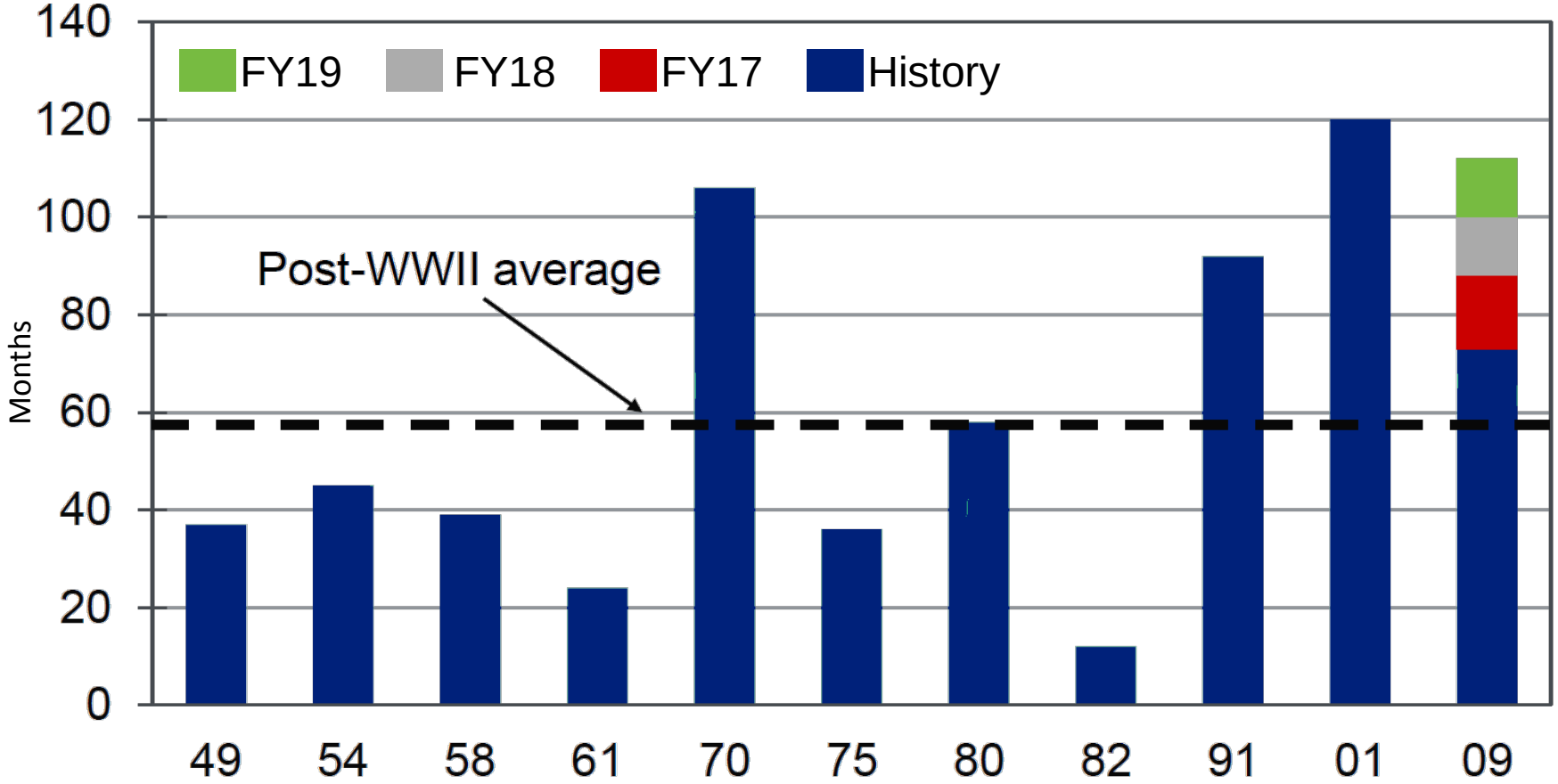
THE UNIVERSITY OF TENNESSEE KNOXVILLE

BOYD CENTER FOR BUSINESS & ECONOMIC RESEARCH

Growth in Quarterly Real Gross Domestic Product (chained 2009 dollars)

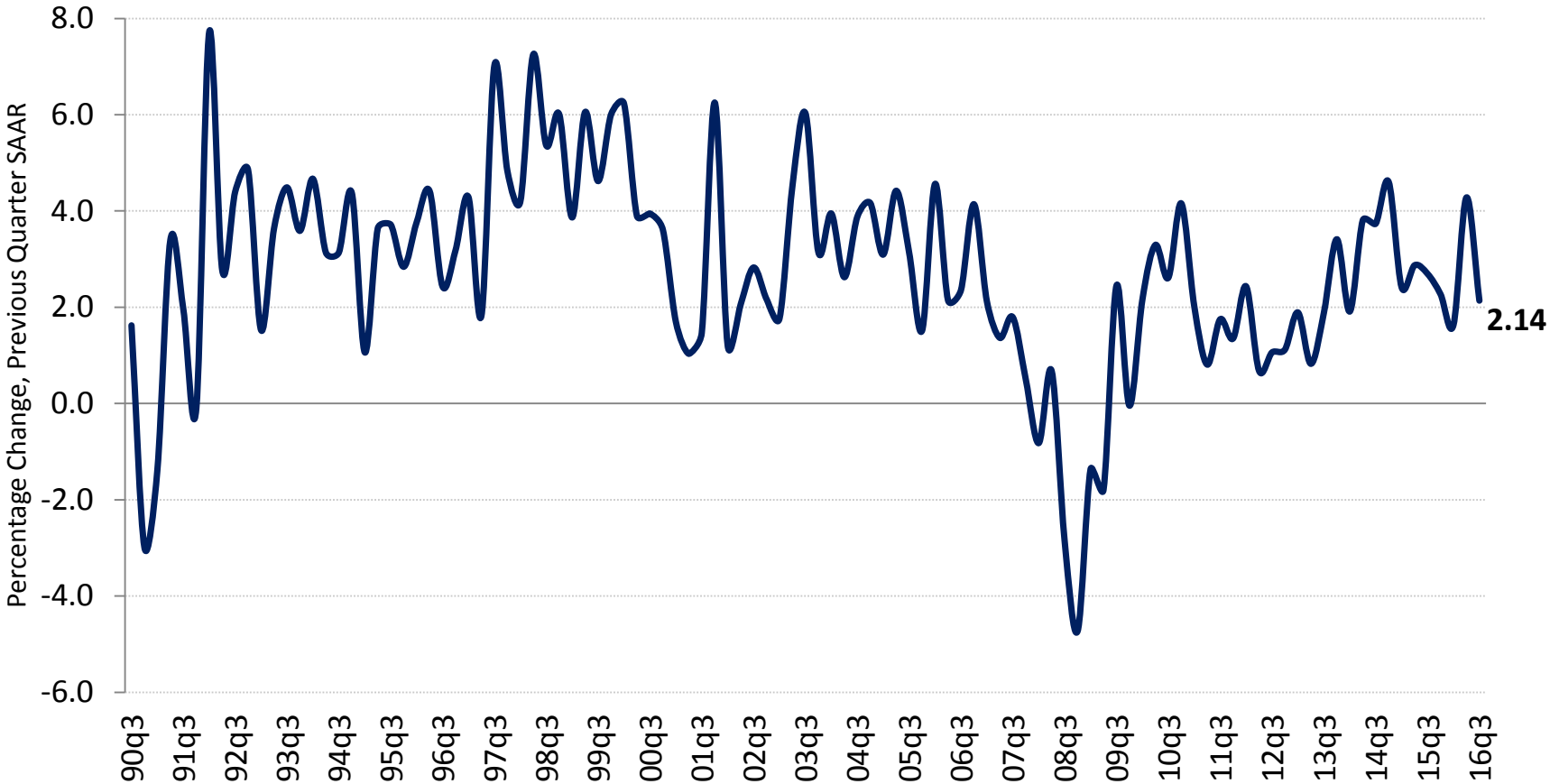


Duration of Business Cycle Expansion
(June-July Fiscal Year)

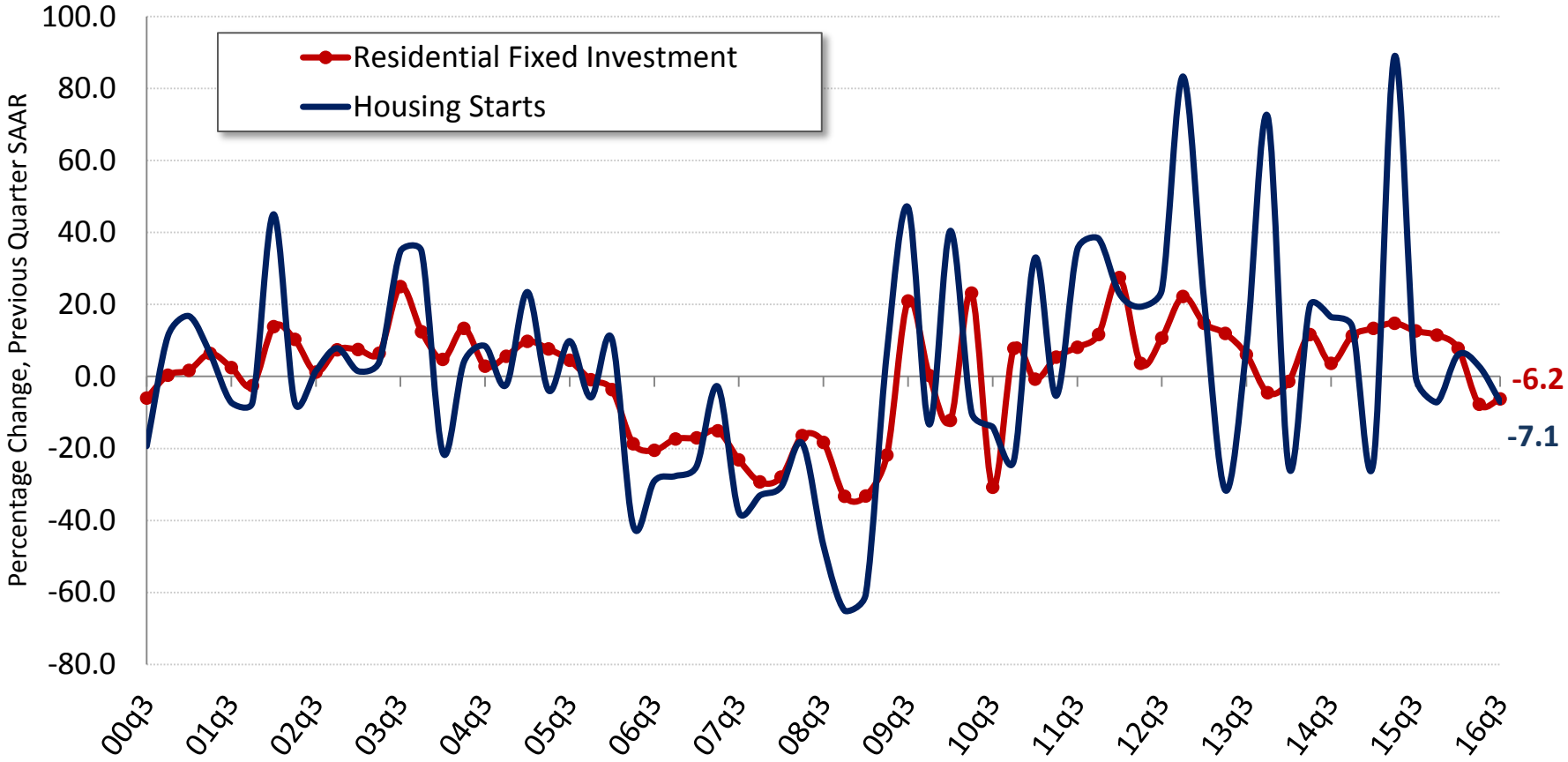


Sources: NBER and Moody's Analytics.

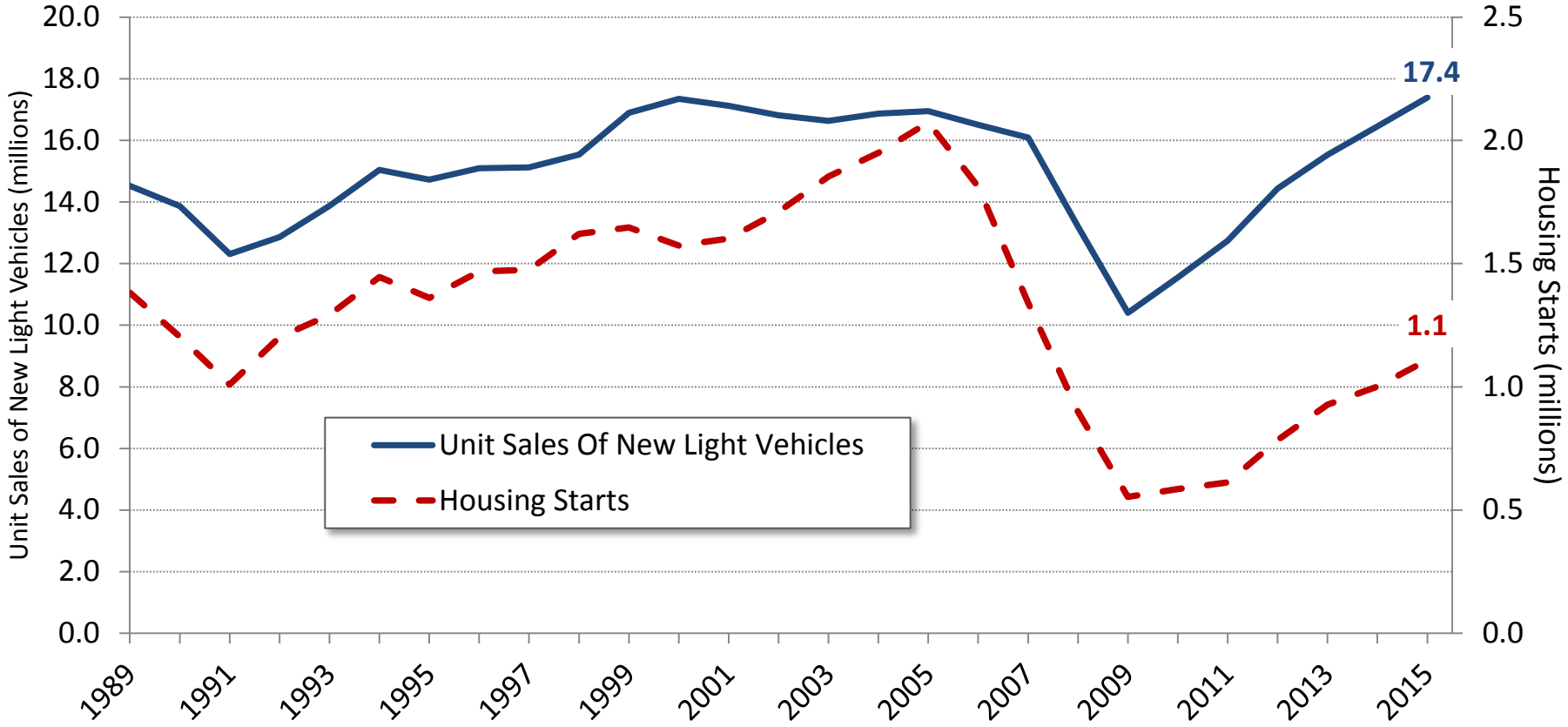
Growth in Quarterly Real Personal Consumption Expenditures (chained 2009 dollars)



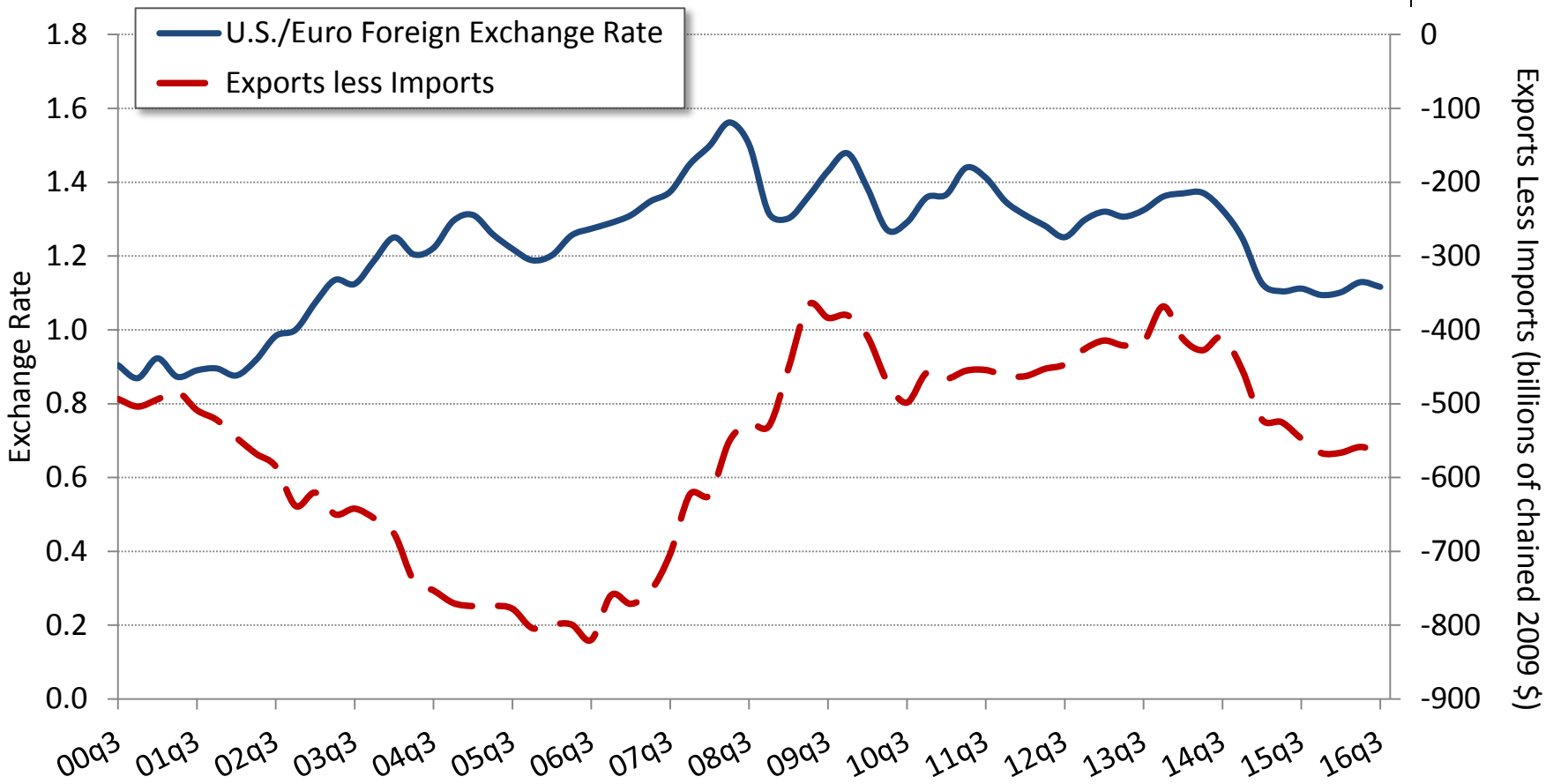
Growth in Quarterly Real Private Residential Fixed Investment and Housing Starts



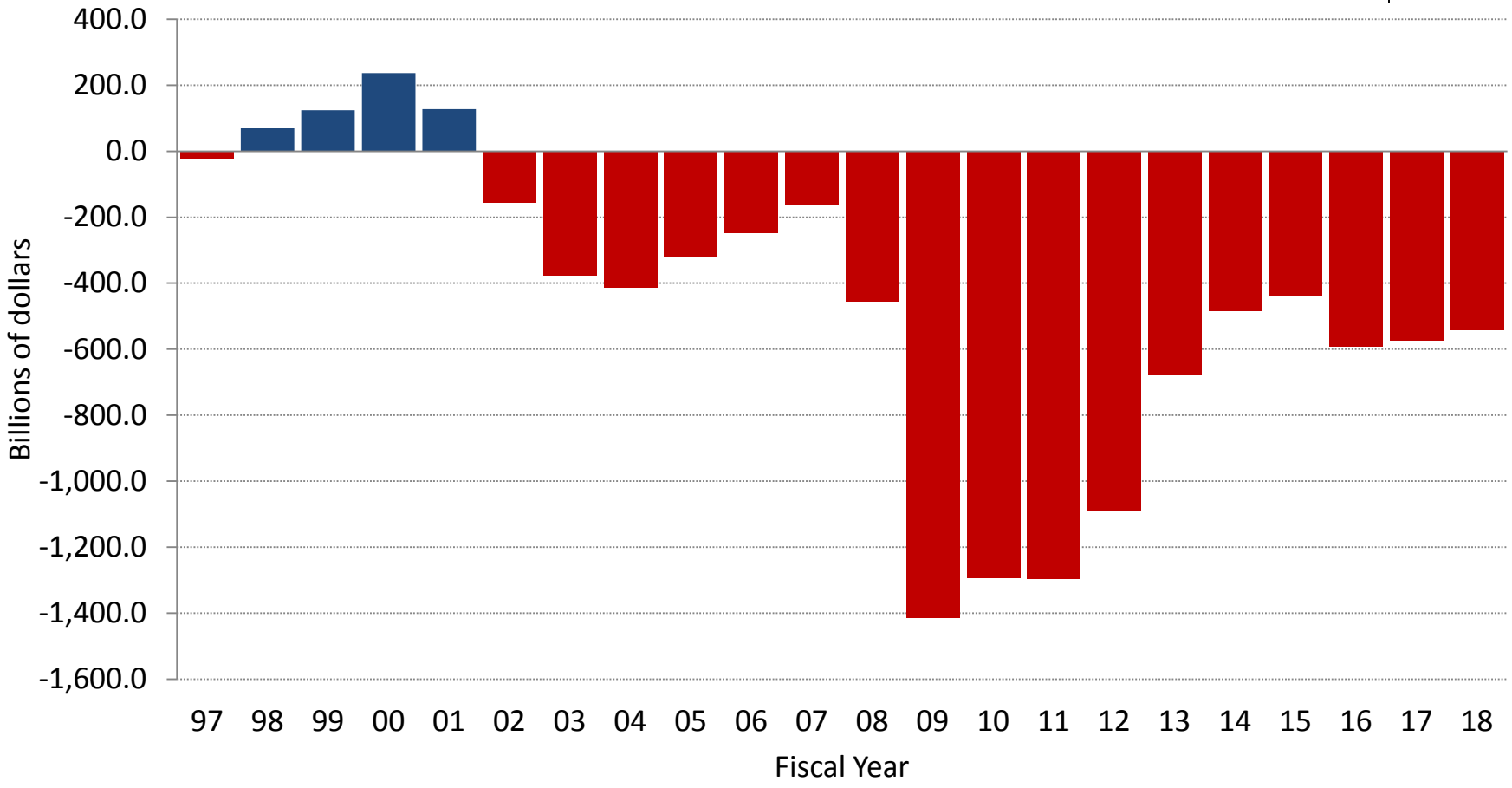
Unit Sales of New Light Vehicles and Housing Starts



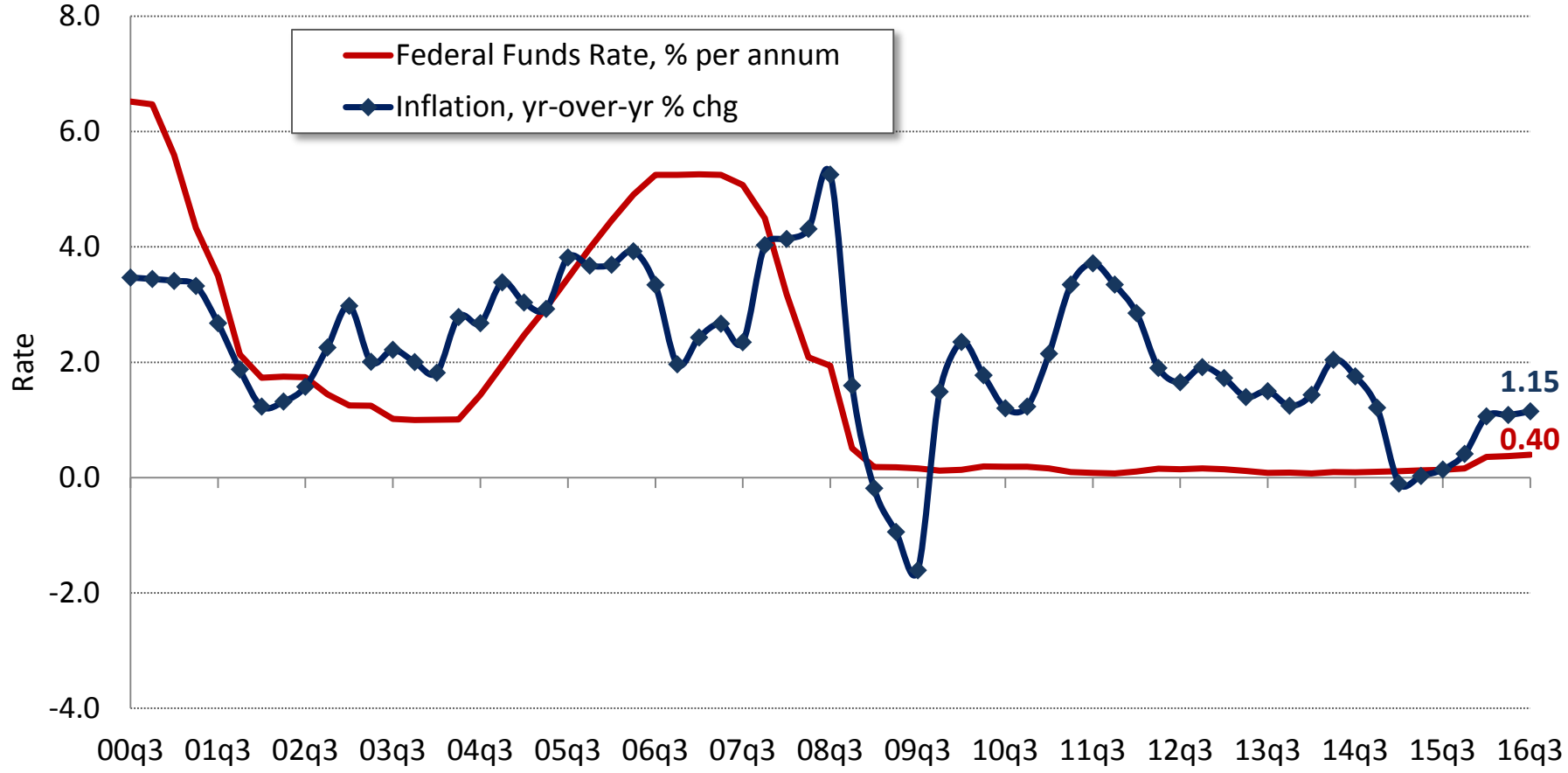
U.S./Euro Foreign Exchange Rate and Real Exports Less Imports



Unified Federal Budget Surplus

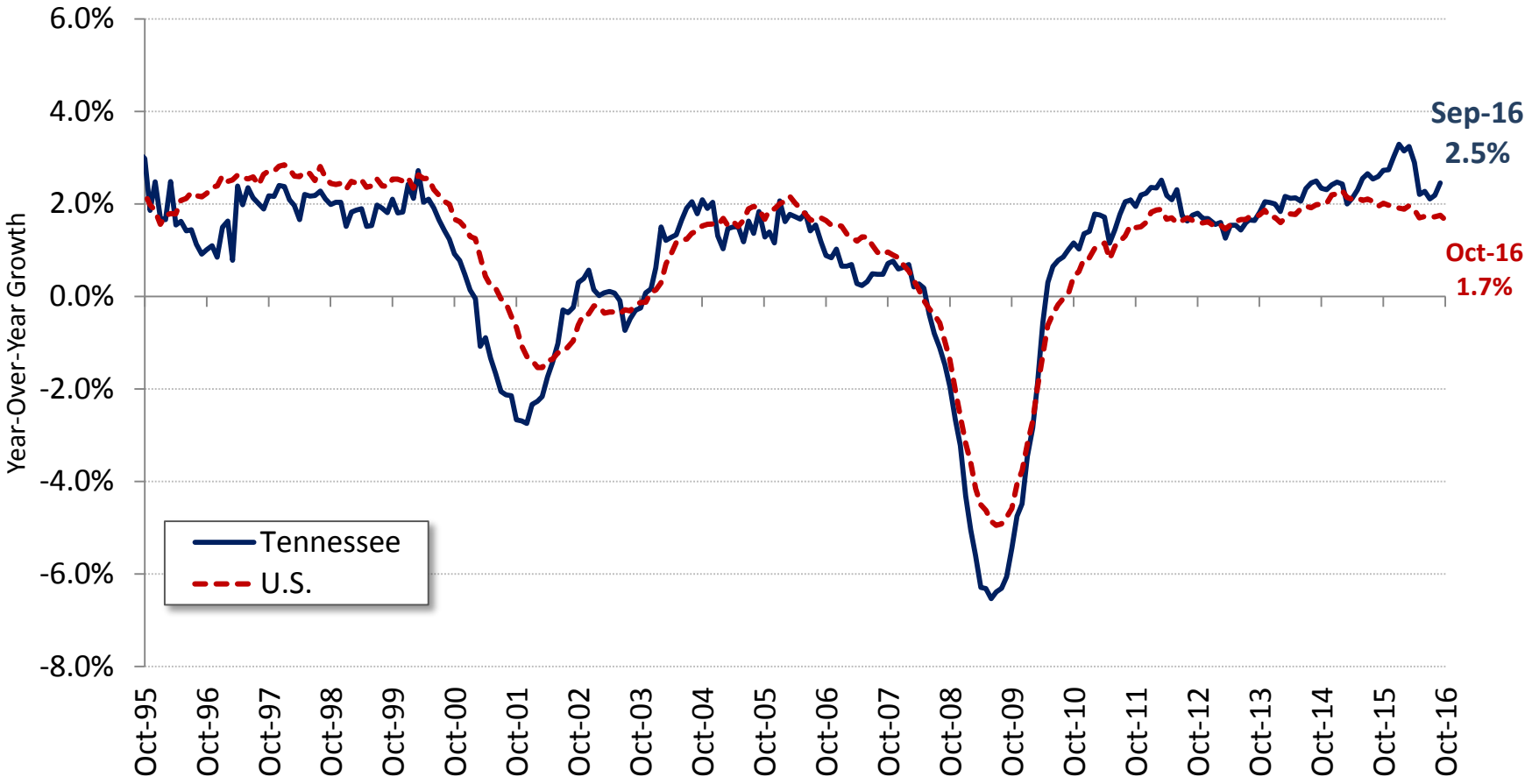


Interest Rates and Inflation



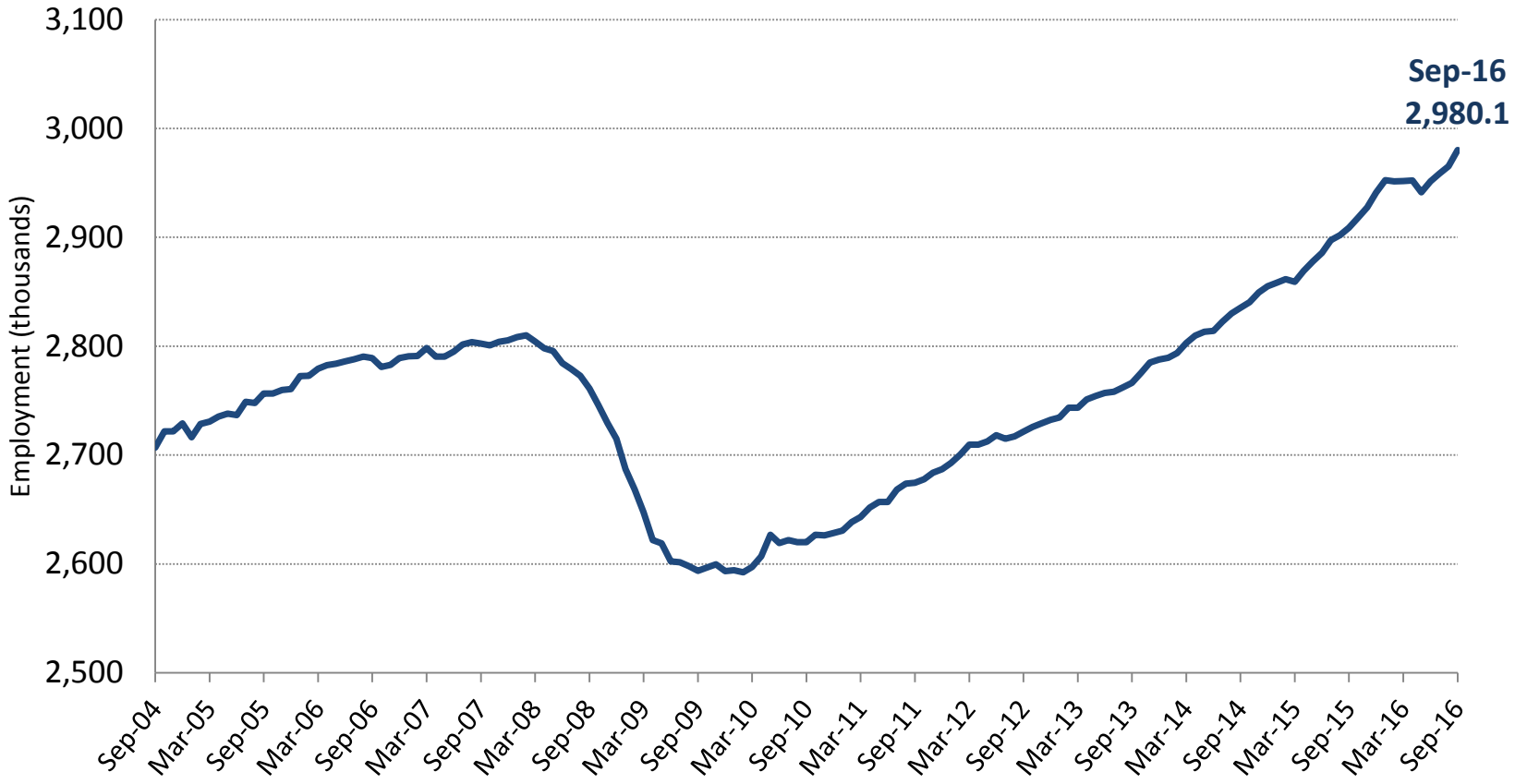
Tennessee and U.S. Nonfarm Job Growth

(year-over-year growth)

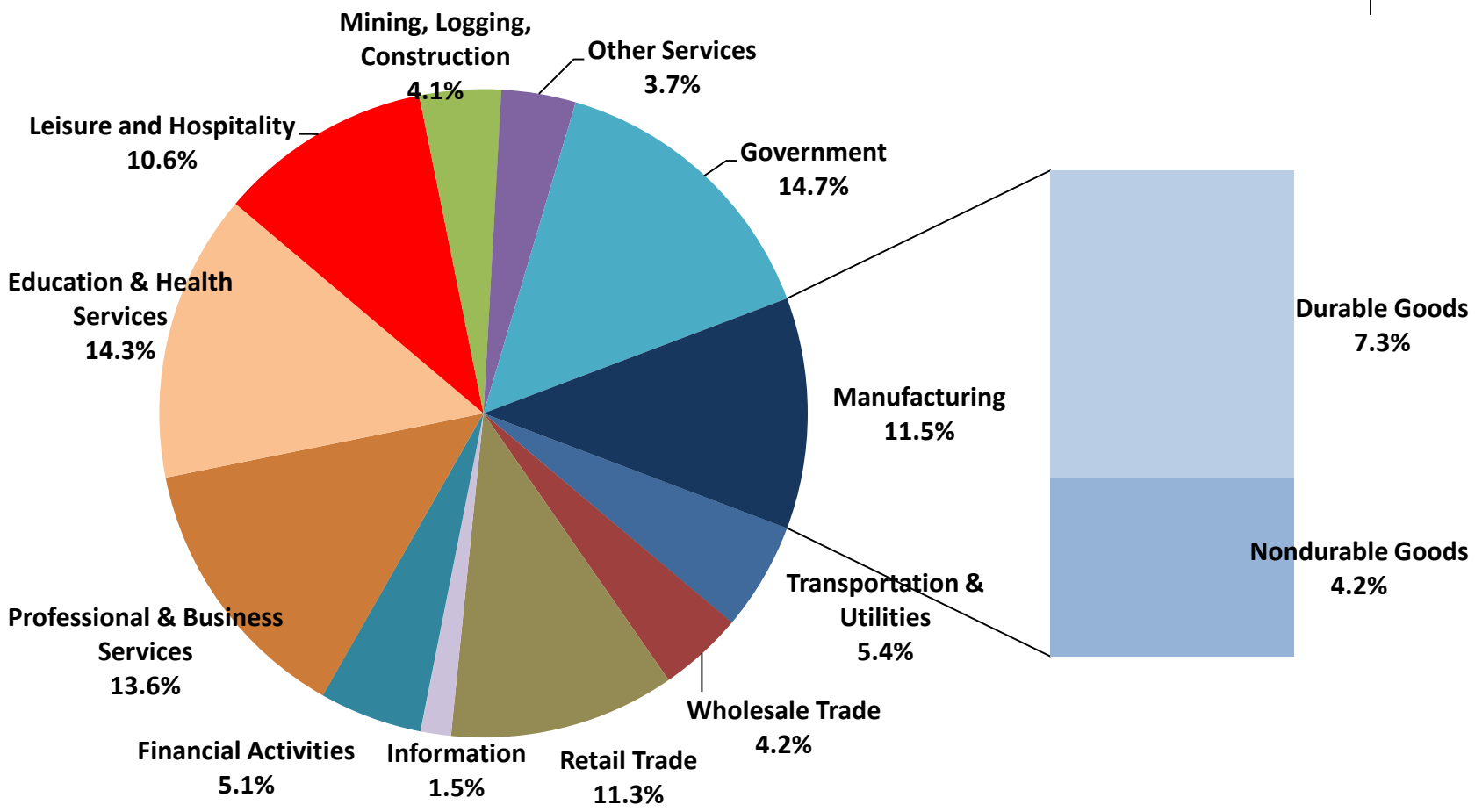


Tennessee Monthly Nonfarm Jobs

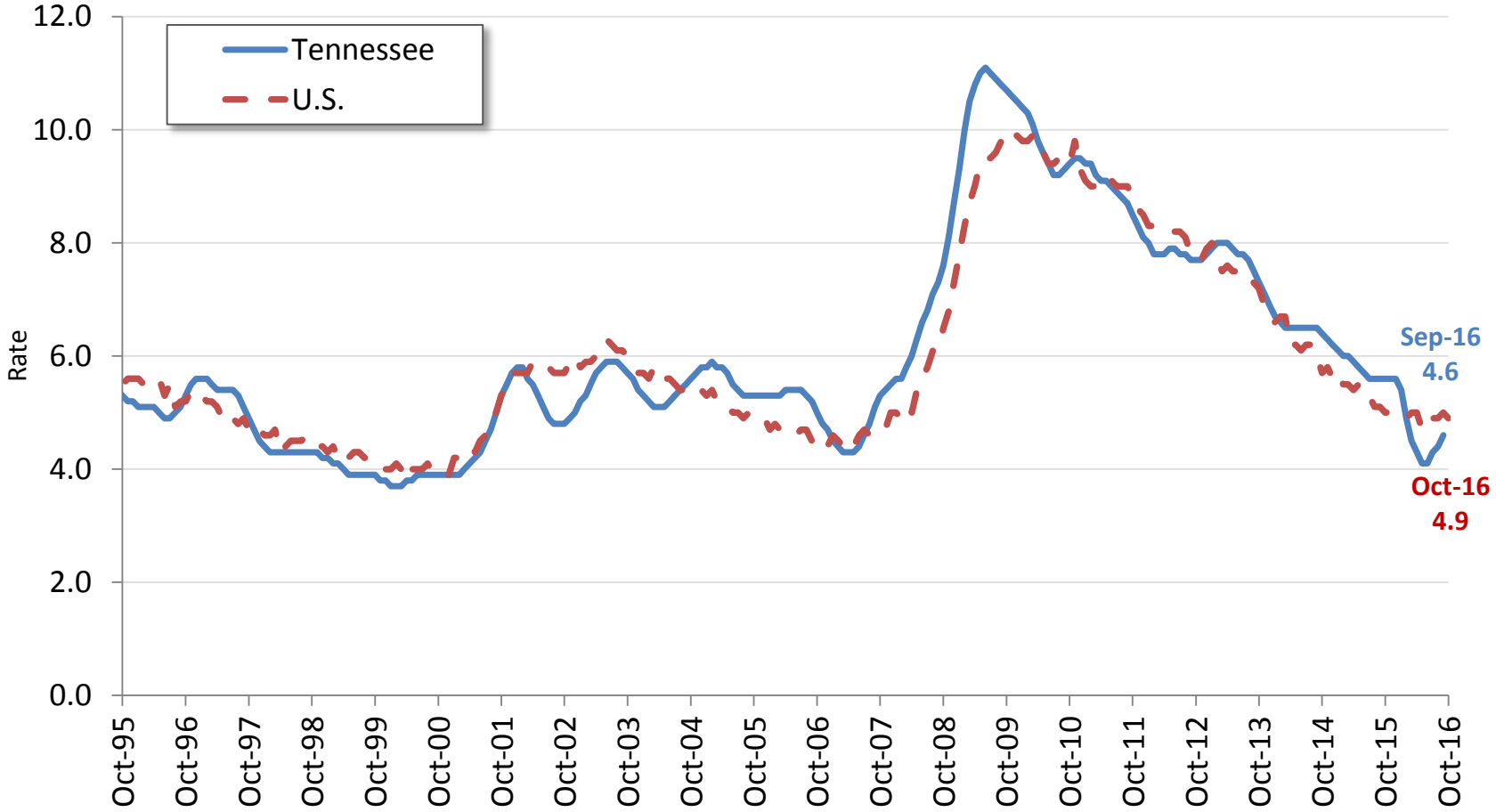
(seasonally adjusted)



Tennessee Employment Distribution by Industry, 2015

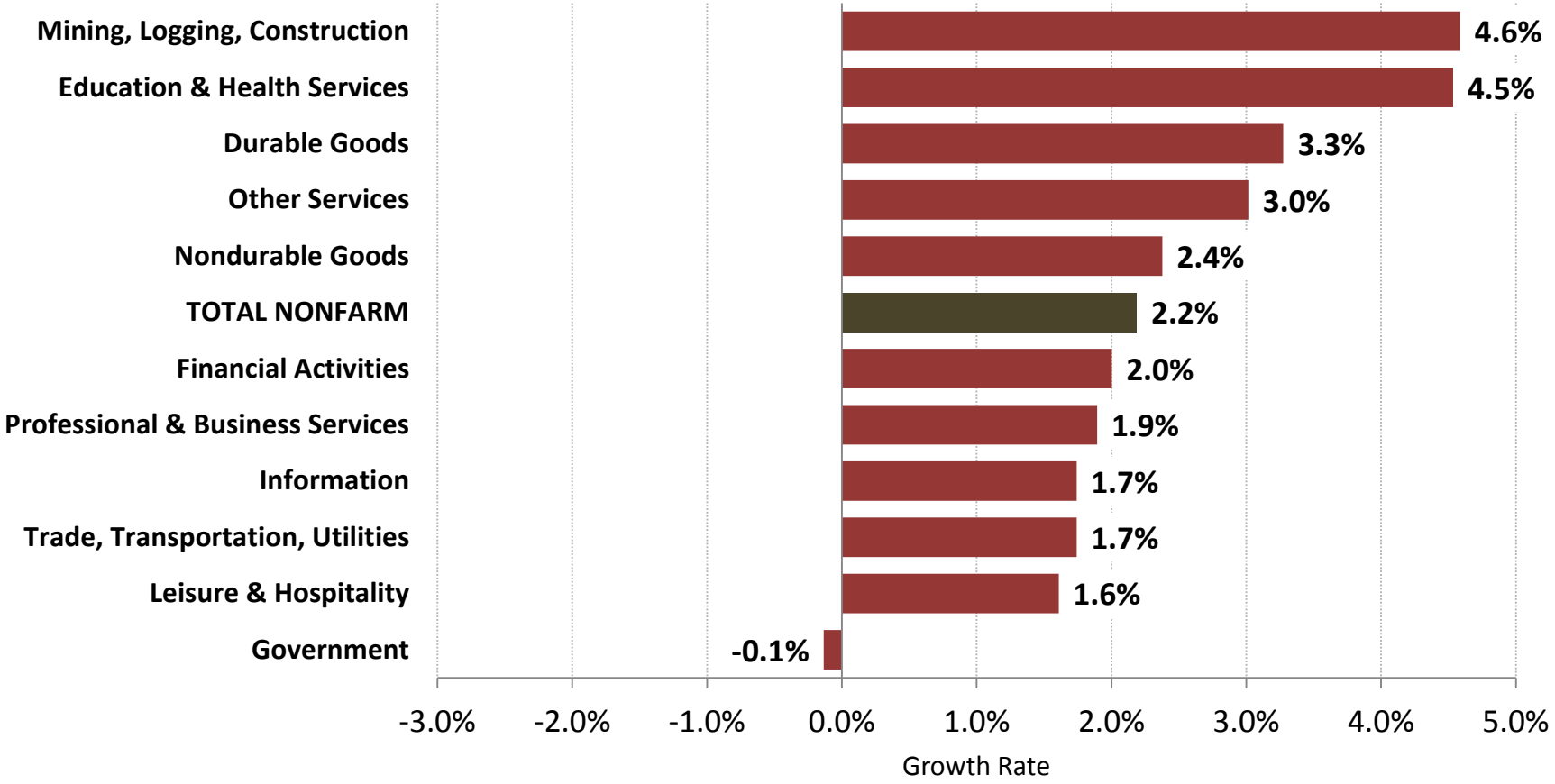


Tennessee and U.S. Unemployment Rate
(seasonally adjusted)

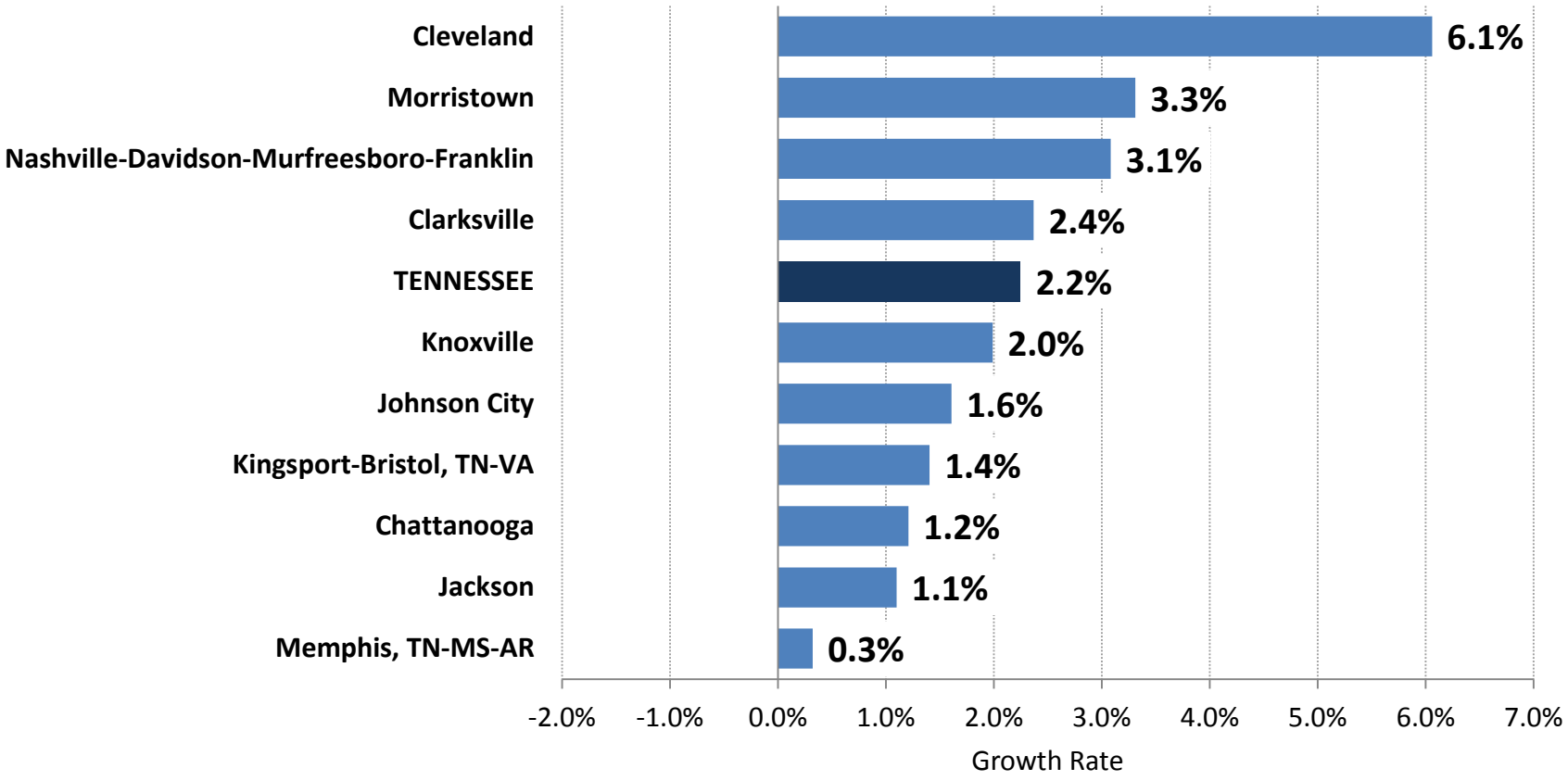


Tennessee Job Growth by Sector

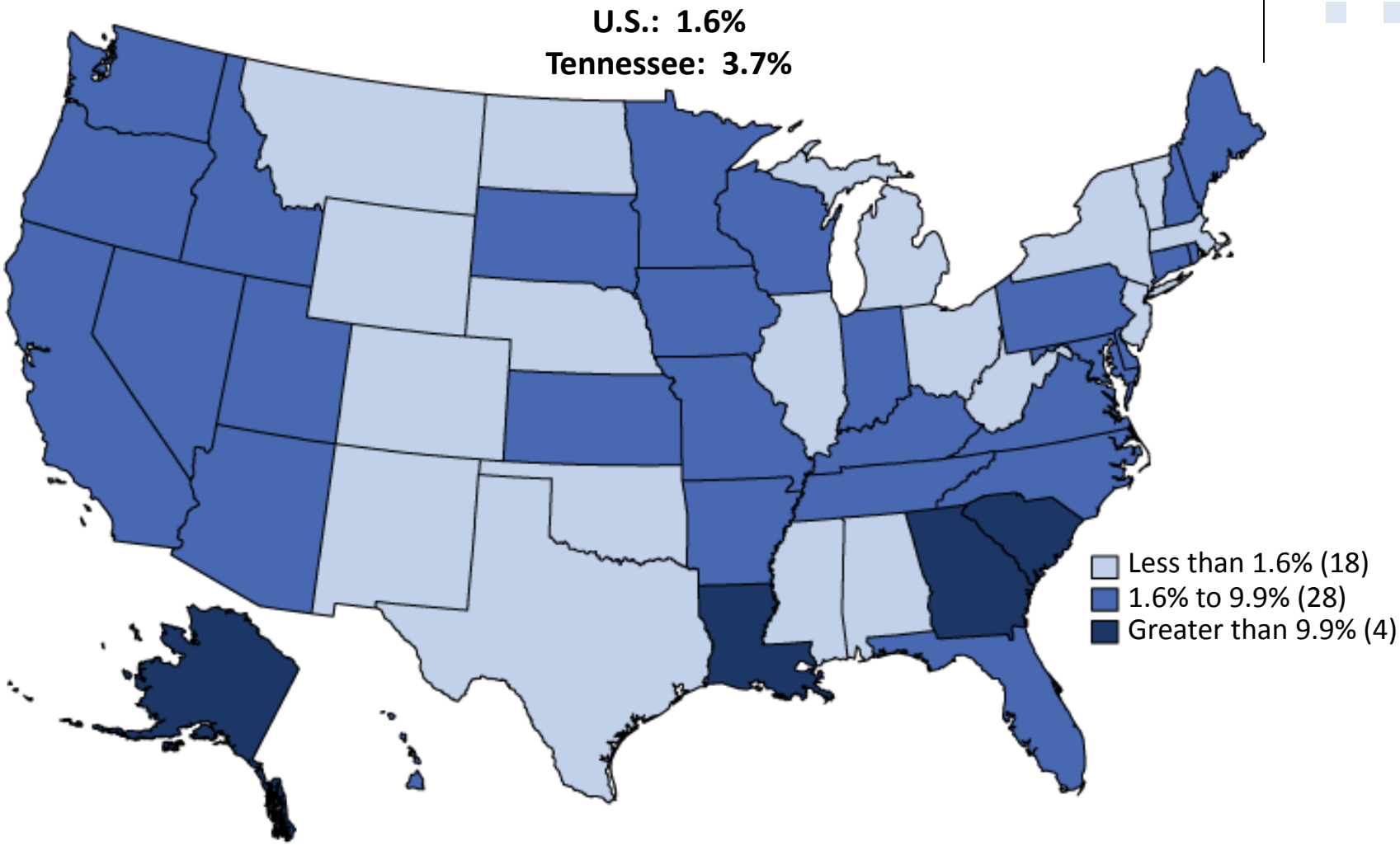
(Quarter Ending Sept. 2015 to Sept. 2016)



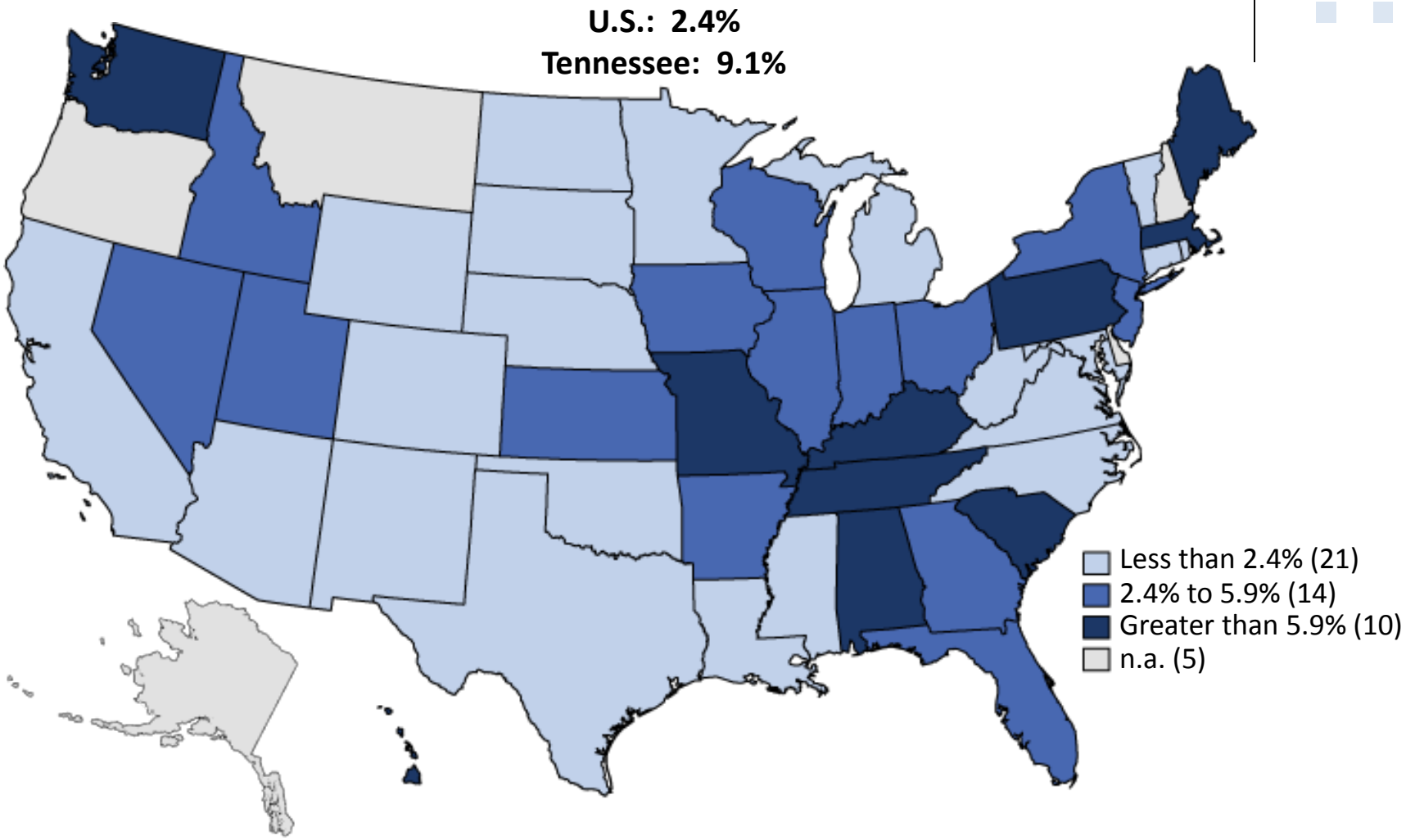
Nonfarm Employment Growth, MSAs
(Quarter Ending Sept. 2015 to Sept. 2016)



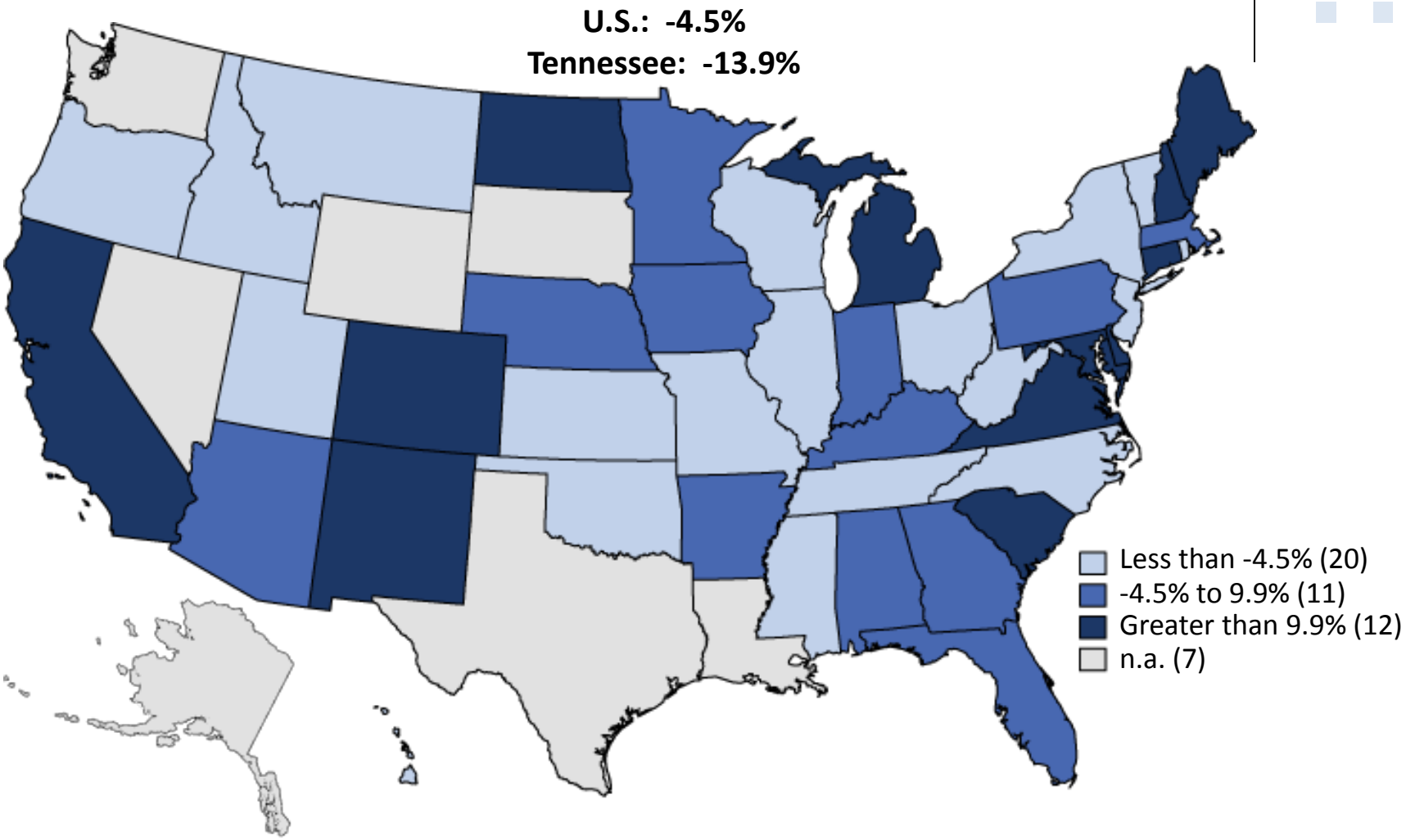
Change in Total Taxes, January–March, 2015 to 2016



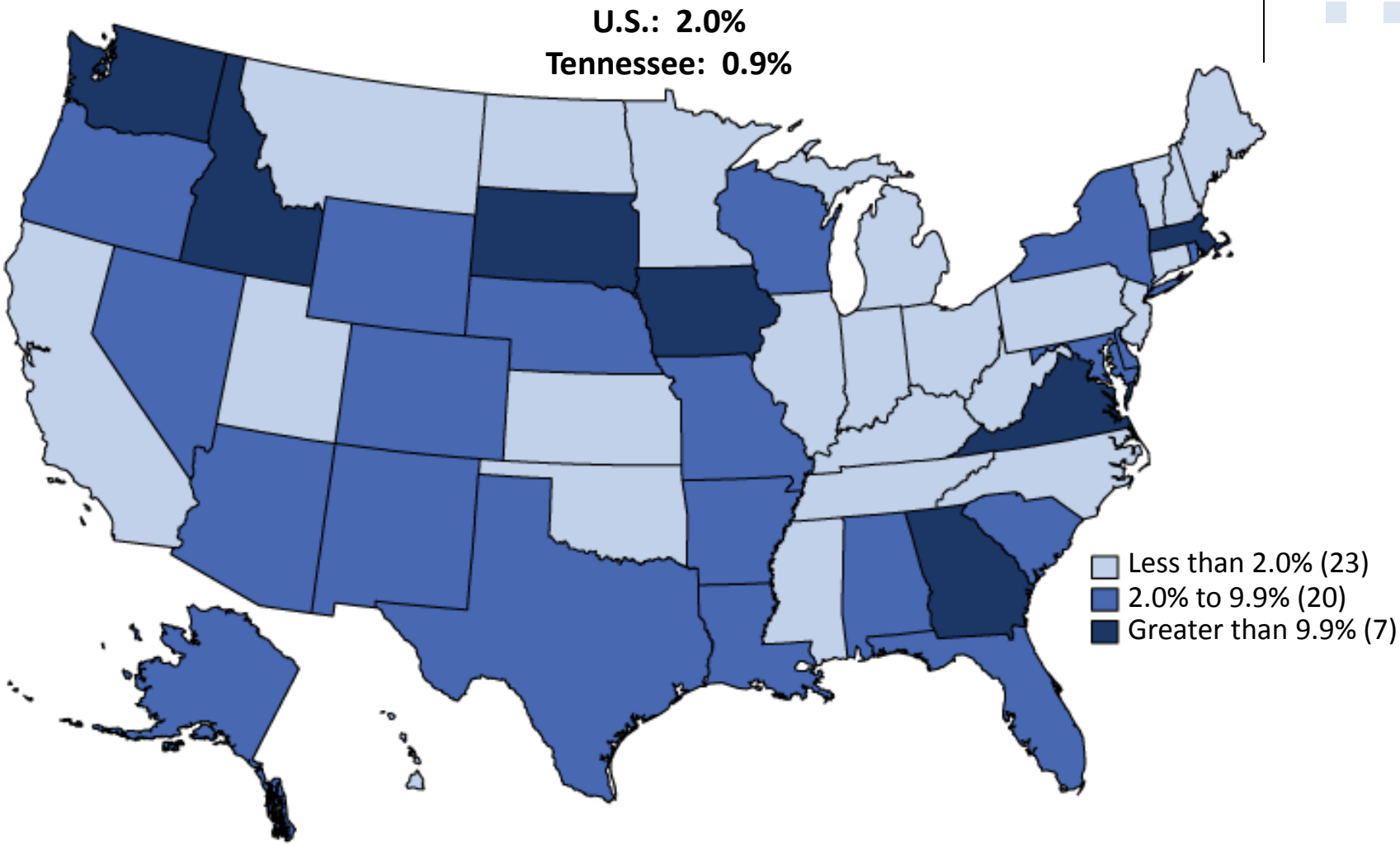
Change in Sales Taxes, January–March, 2015 to 2016



Change in Corporate Income Taxes, January–March, 2015 to 2016



Change in Motor Fuel Taxes, January–March, 2015 to 2016



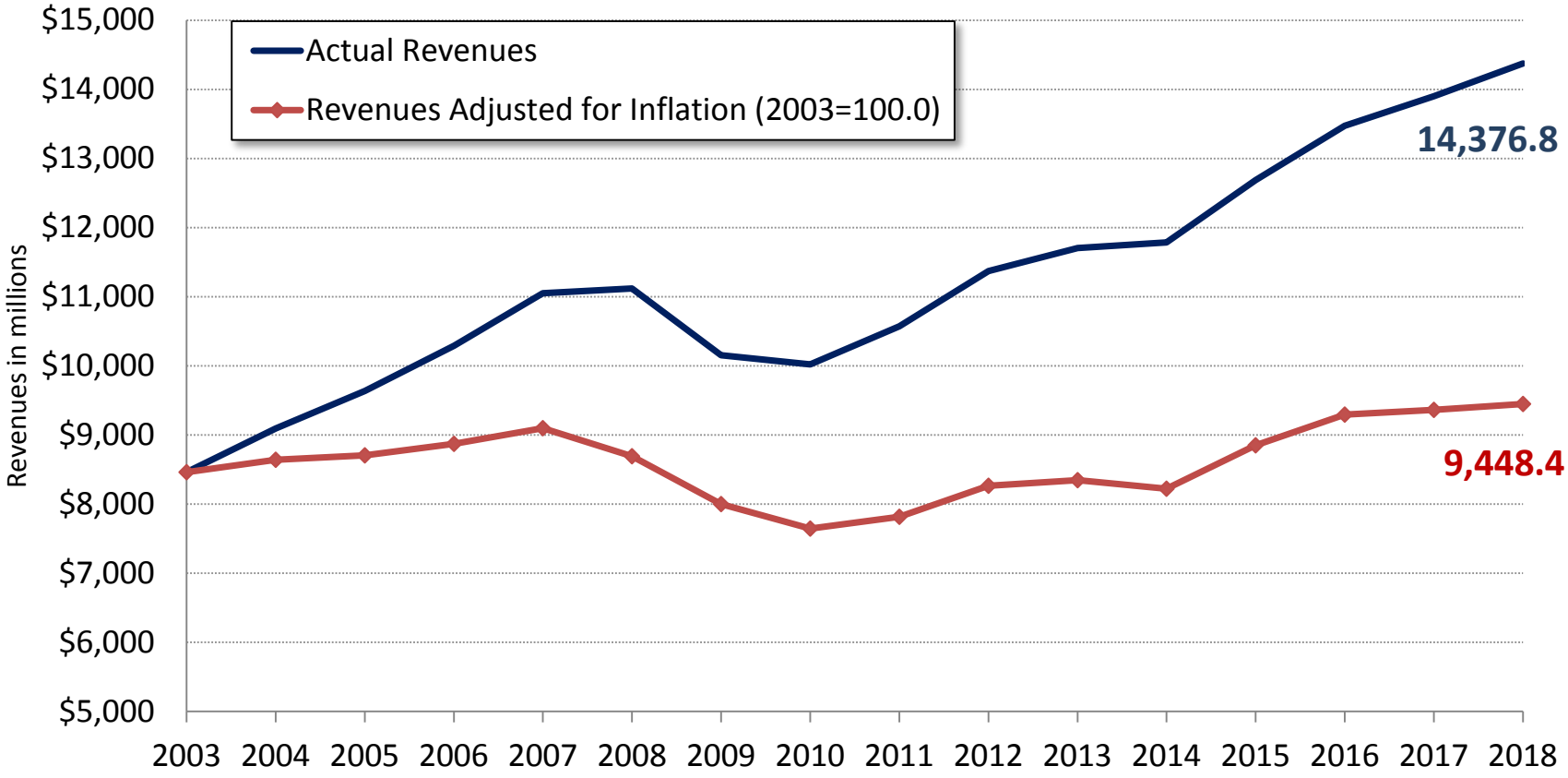
Tennessee Department of Revenue Collections (Millions of Dollars)

	2016			2017			2018		
	Amount	Percent Change	General Fund	Amount	Percent Change	General Fund	Amount	Percent Change	General Fund
Sales and Use	8,267.2	7.3	7,795.3	8,606.2	4.1	8,125.9	8,950.4	4.0	8,450.9
Gasoline	659.9	4.4	10.2	667.8	1.2	10.8	674.5	1.0	10.9
Motor Fuel	172.3	4.1	3.3	176.6	2.5	3.3	180.1	2.0	3.4
Gasoline Inspection	67.4	4.0	19.8	68.4	1.5	20.1	69.1	1.0	20.3
Motor Vehicle Registration	271.2	3.6	47.8	276.6	2.0	47.1	283.5	2.5	48.3
Income	322.4	6.3	210.4	279.4	-13.3	182.3	232.5	-16.8	151.7
Privilege	359.5	2.2	357.1	379.7	5.6	379.7	402.4	6.0	402.4
Gross Receipts	368.7	-2.3	214.1	362.5	-1.7	208.7	369.8	2.0	212.9
Gross Receipts - TVA	348.7	0.0	194.4	342.1	-1.9	188.9	348.9	2.0	192.7
Gross Receipts - Other	20.0	-30.3	17.2	20.4	2.0	17.2	20.8	2.2	17.6
Beer	17.4	3.0	11.7	17.4	0.0	11.7	17.6	1.0	11.8
Alcoholic Beverage	62.3	9.3	51.5	66.7	7.0	55.1	70.7	6.0	58.4
Franchise & Excise	2,311.7	6.8	1,968.3	2,427.3	5.0	2,114.7	2,548.6	5.0	2,220.4
Inheritance & Estate	55.4	-21.1	55.4	20.0	-63.9	19.5	10.0	-50.0	9.8
Tobacco	261.5	-0.7	261.5	260.2	-0.5	212.0	260.2	0.0	212.0
Motor Vehicle Title	22.8	88.4	22.8	23.7	4.0	23.7	23.9	1.0	23.9
Mixed Drink	96.3	12.0	74.5	104.0	8.0	104.0	111.3	7.0	111.3
Business	154.6	0.8	77.2	162.3	5.0	139.0	170.4	5.0	146.0
Severance	1.4	-33.3	1.4	1.4	2.0	0.7	1.4	0.0	0.7
Coin Amusement	0.3	0.0	0.1	0.2	0.0	0.2	0.2	0.0	0.2
Unauthorized Substance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**13,472.3**	**7.6**	**11,179.9**	**13,900.4**	**3.2**	**11,655.9**	**14,376.8**	**3.4**	**12,092.6**
General Fund Growth		**14.3**			**4.3**			**3.7**	

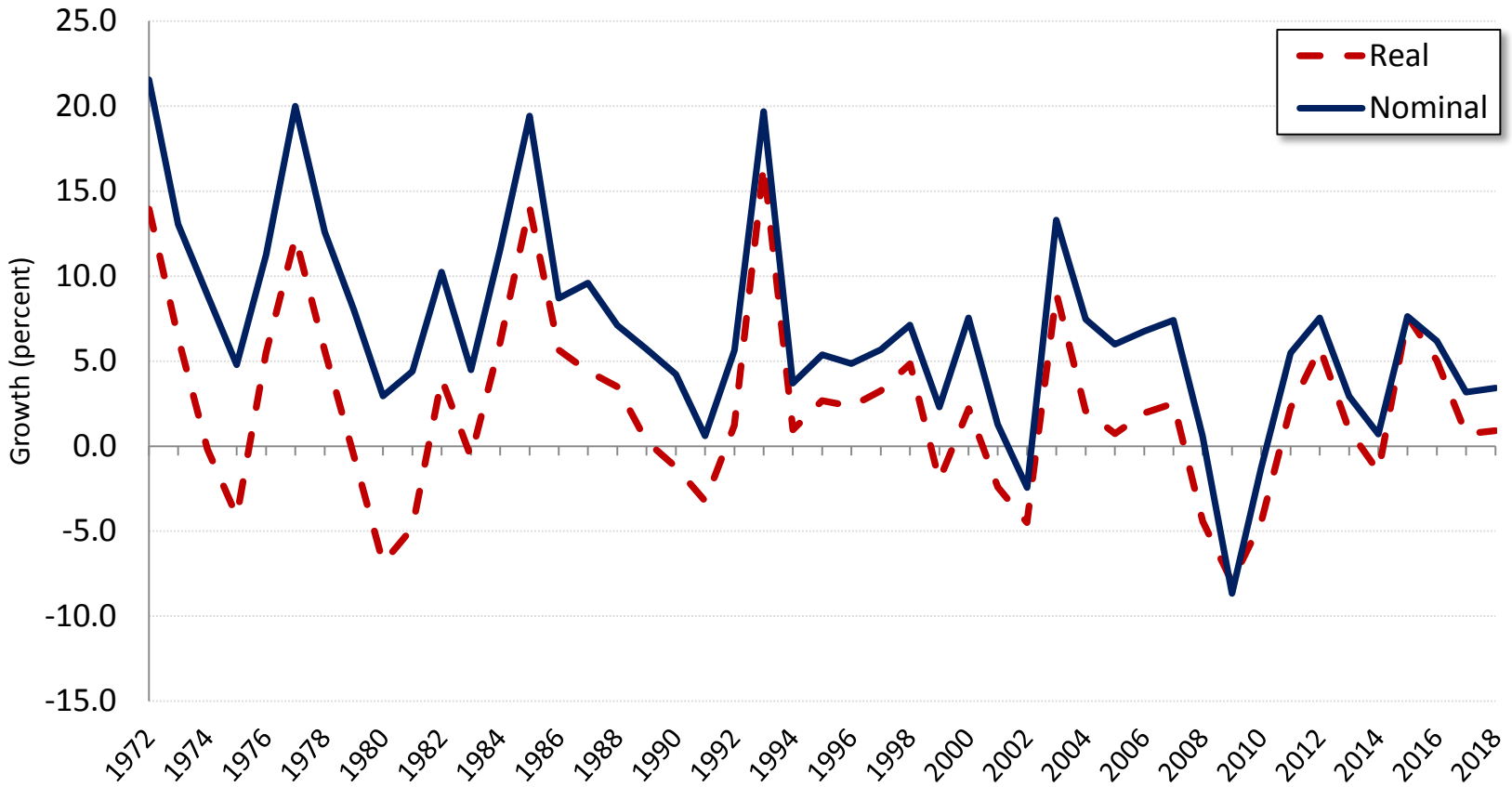
November 17, 2016

William F. Fox
Boyd Center for Business and Economic Research
University of Tennessee, Knoxville

Actual Tax Collection Revenues and Revenues Adjusted for Inflation, 2003–2018

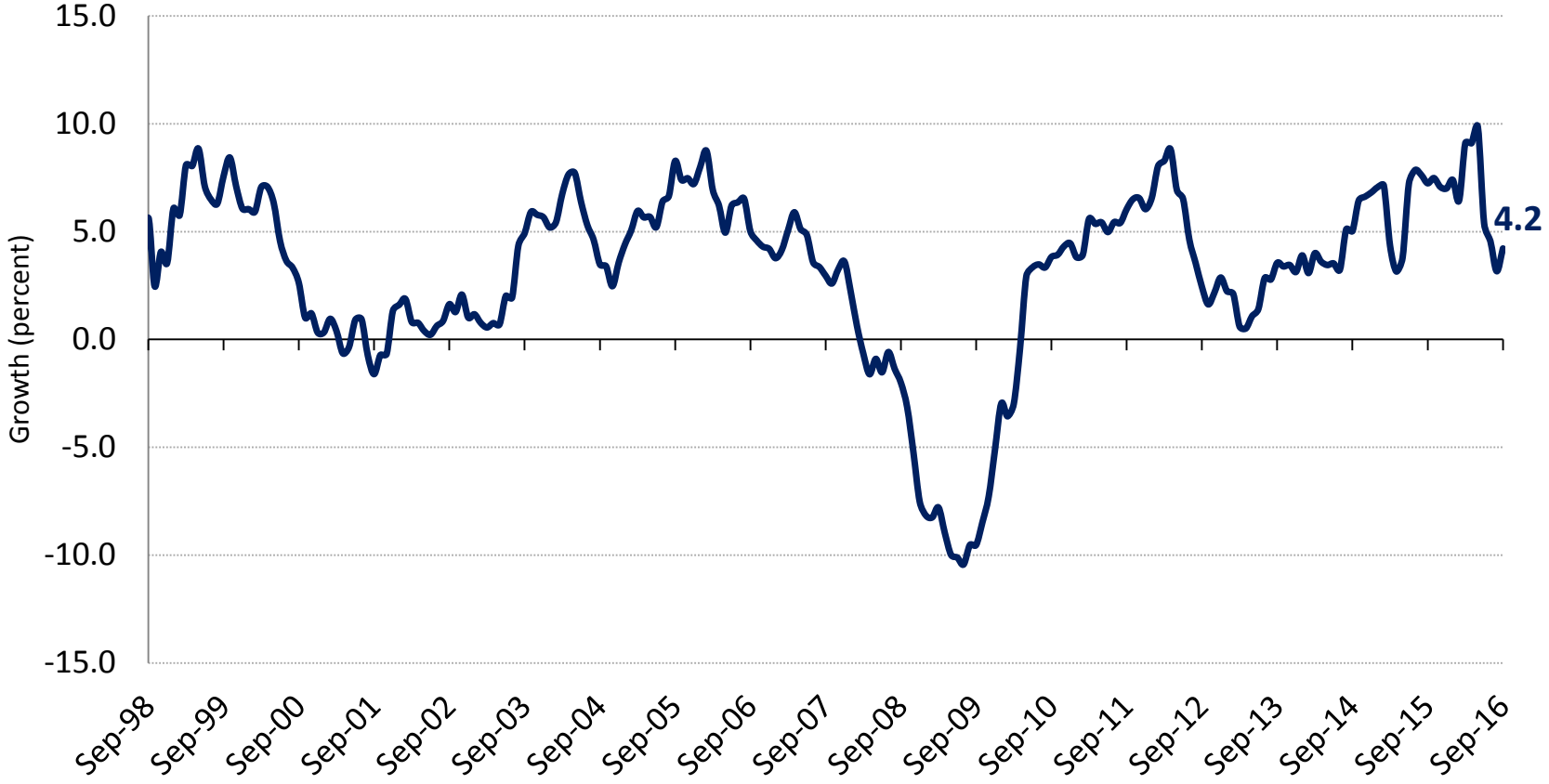


Growth in Adjusted Tax Collections
1972–2018

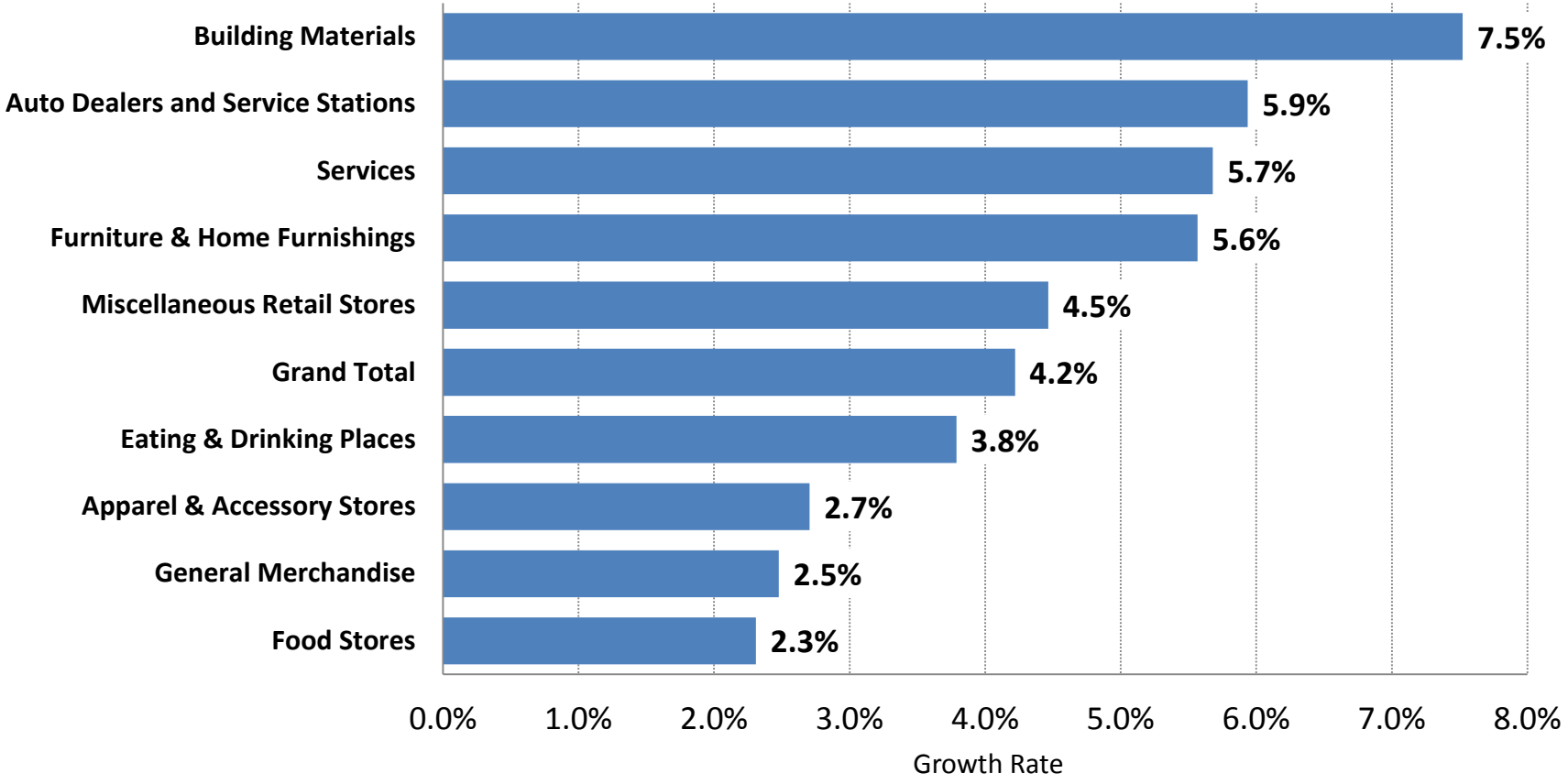


Growth in Sales Tax Revenue

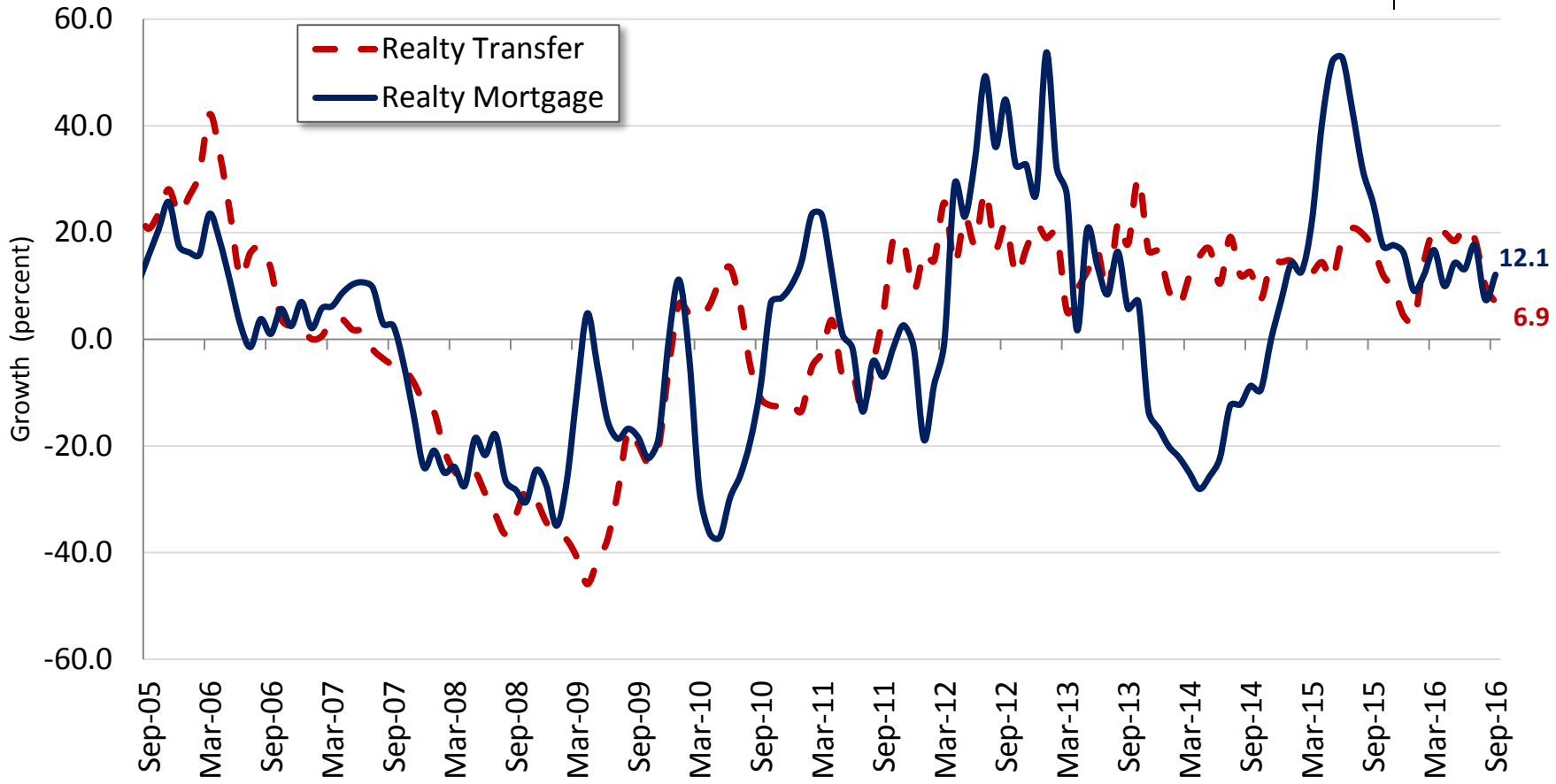
(3-month moving average)



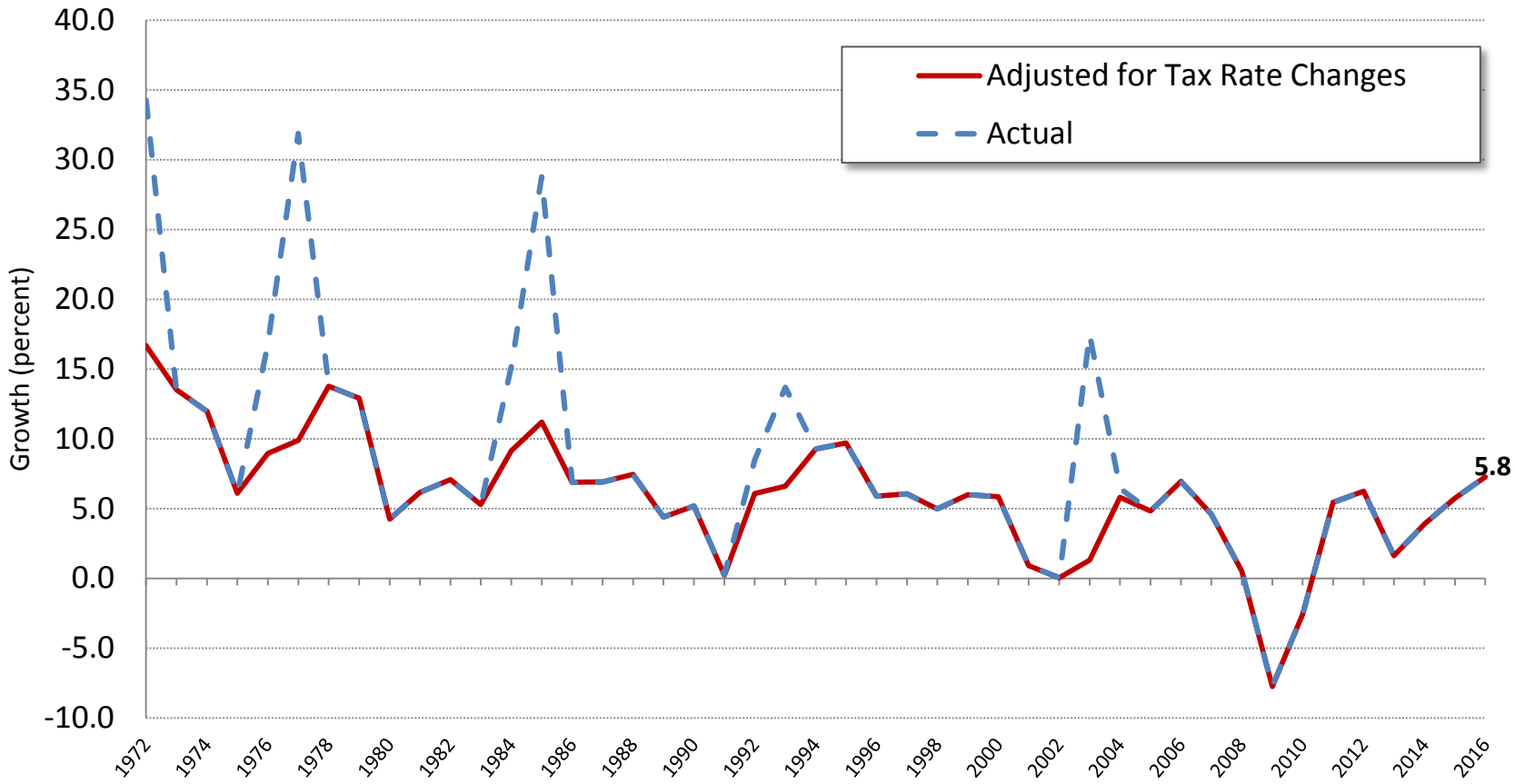
Sales Tax Collections by Category of Sales
(Quarter Ending Sept. 2015 to Sept. 2016)



Realty Transfer and Mortgage Tax Collections (3-month moving average)



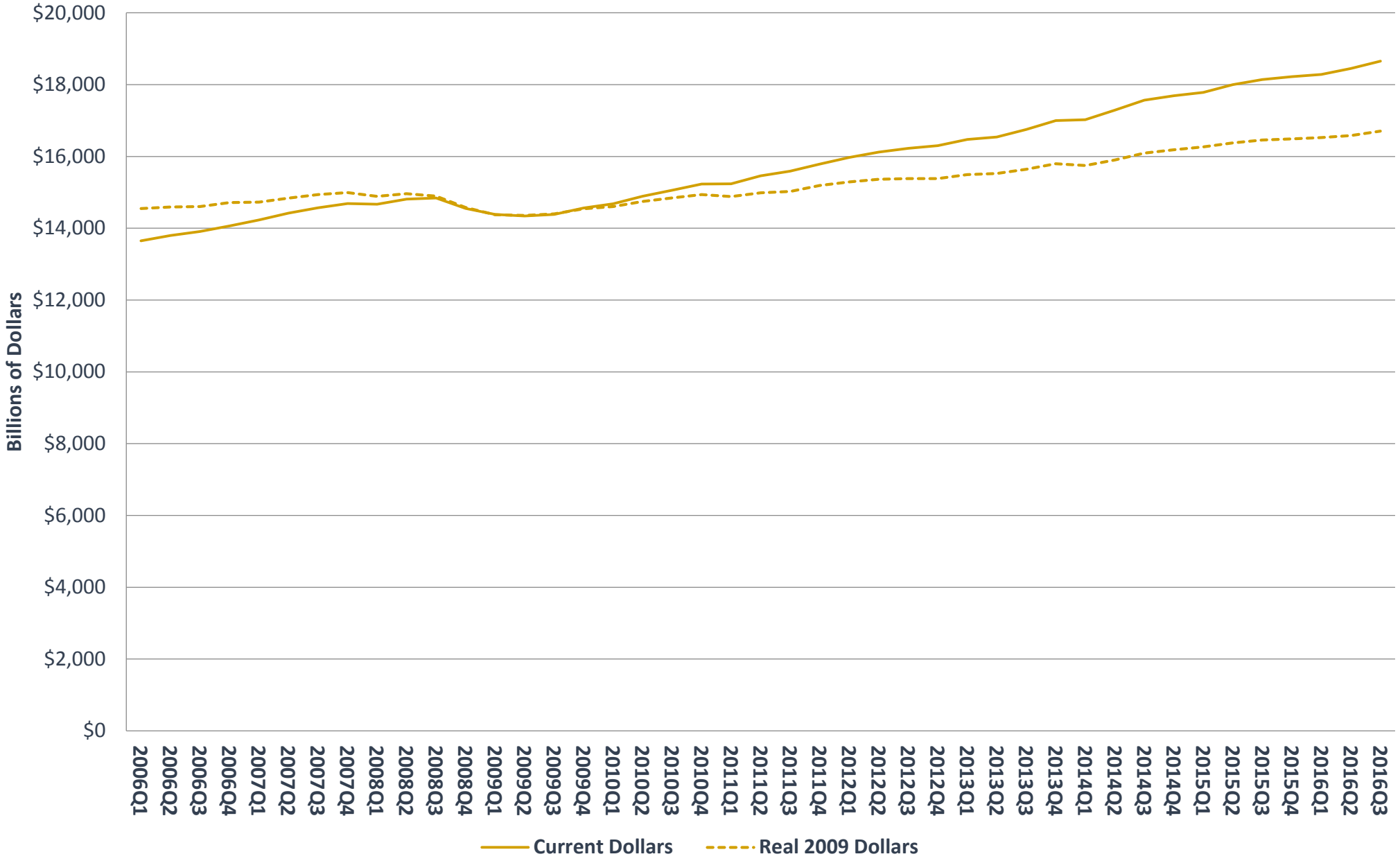
Sales Tax Collections, Actual vs. Rate Adjusted, 1971–2016



Tennessee Economic Outlook
and
Revenue Forecast

Jon L. Smith, Director
Bureau of Business and Economic Research
and
Joseph Newhard, Assistant Professor
Department of Economics and Finance

U.S. GDP


$20,000
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
Billions of Dollars
2006Q1
2006Q2
2006Q3
2006Q4
2007Q1
2007Q2
2007Q3
2007Q4
2008Q1
2008Q2
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3
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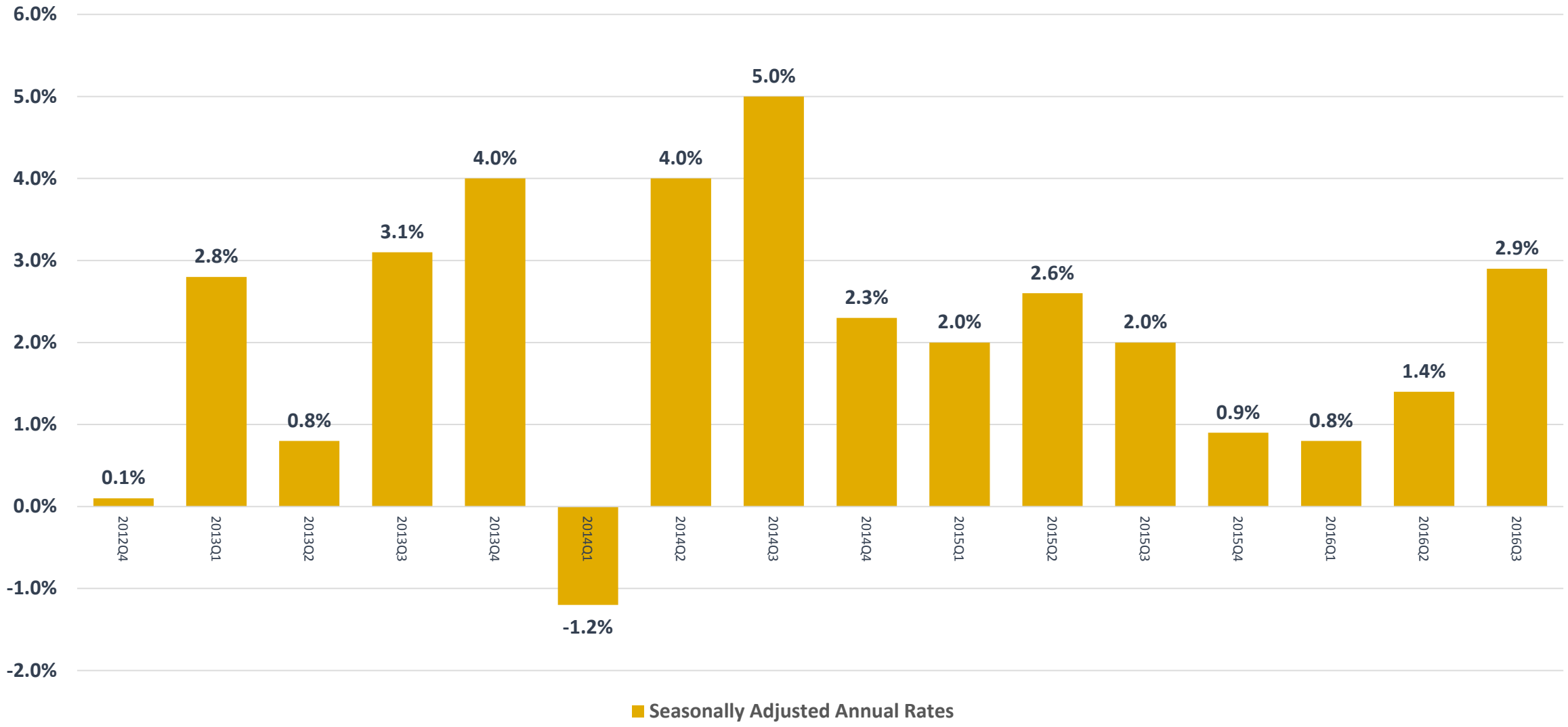
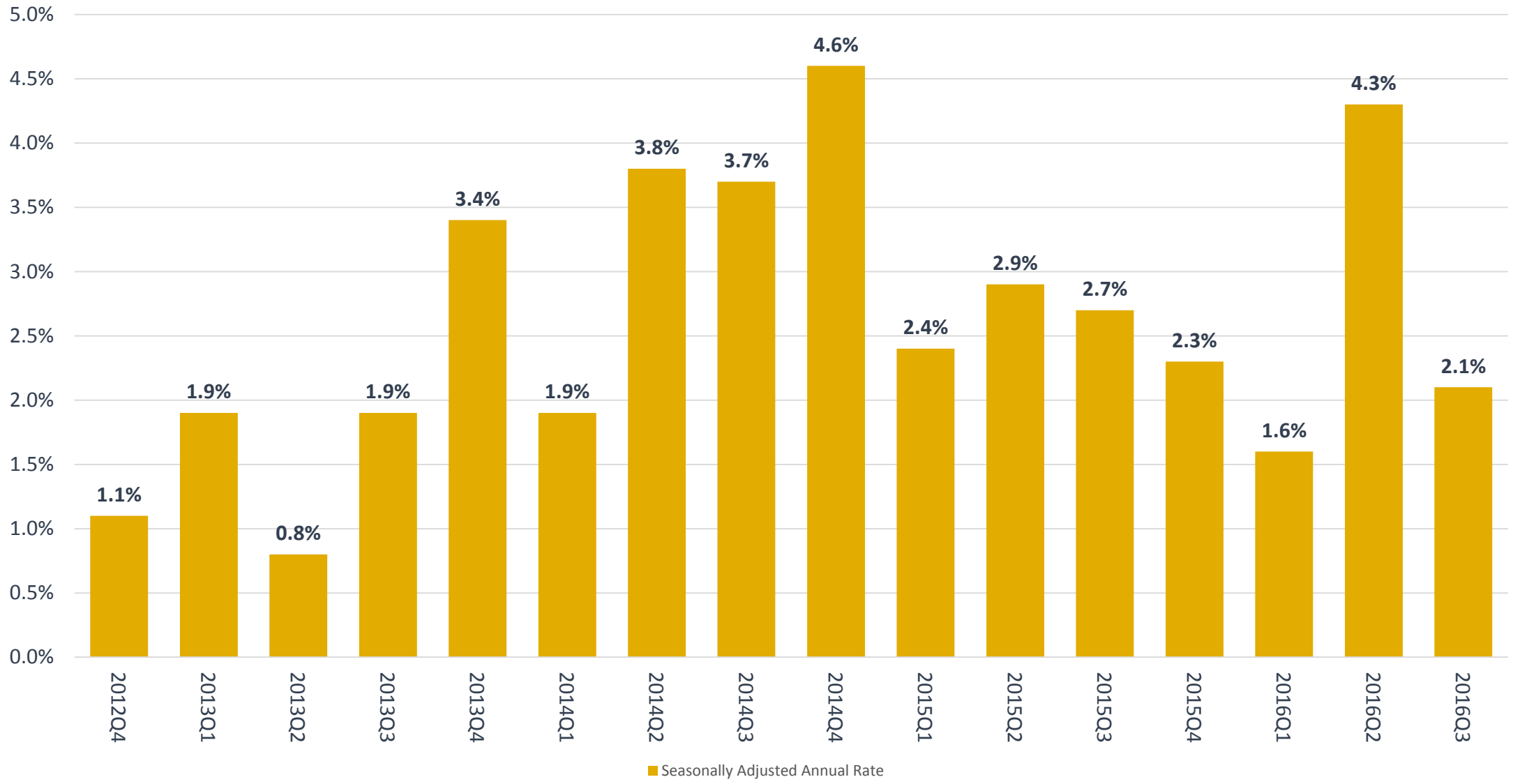
2013Q4
2014Q1
2014Q2
2014Q3
2014Q4
2015Q1
2015Q2
2015Q3
2015Q4
2016Q1
2016Q2
2016Q3
Current Dollars
Real 2009 Dollars

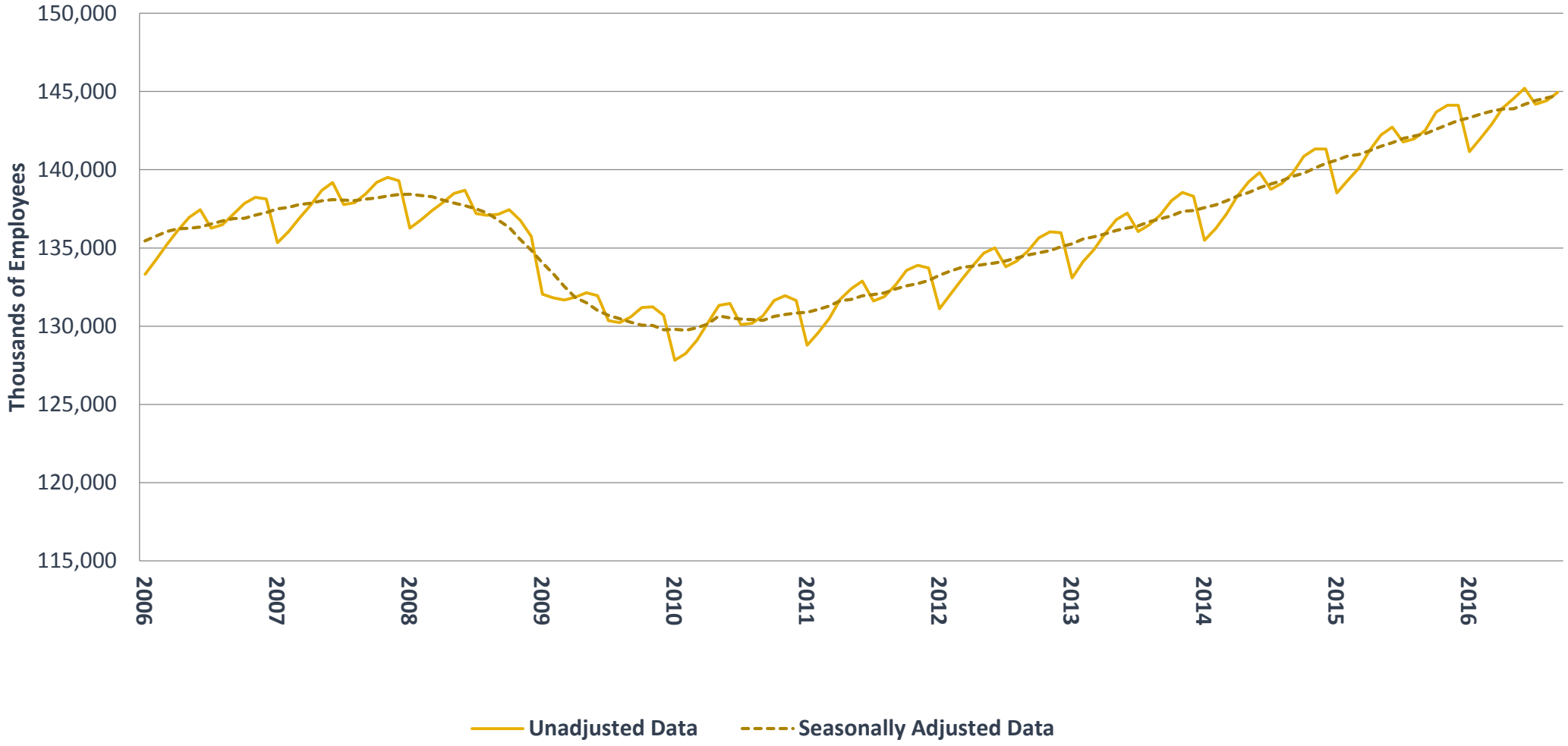
GDP: Percent Change from Preceding Period



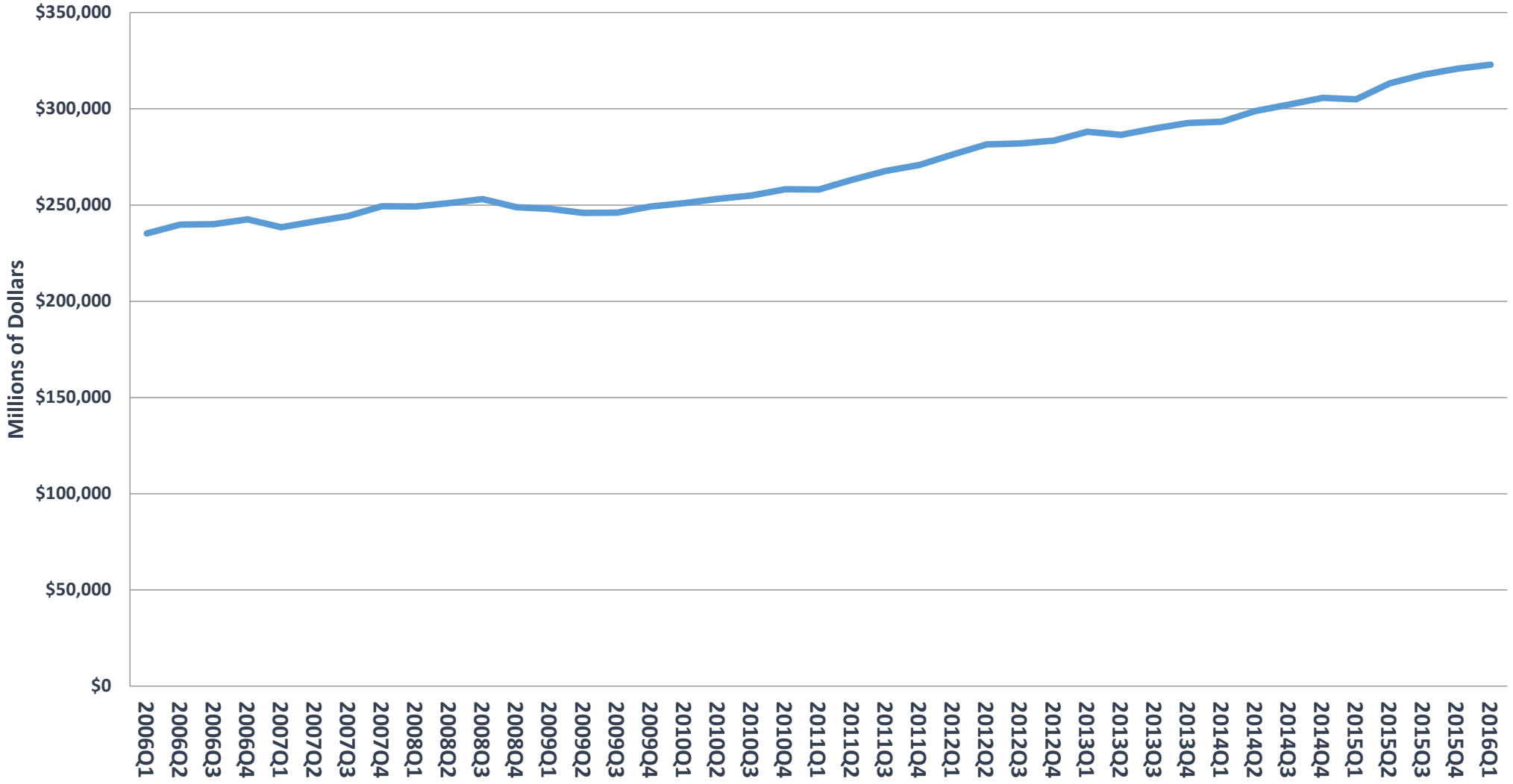
PCE: Percent Change from Preceding Period



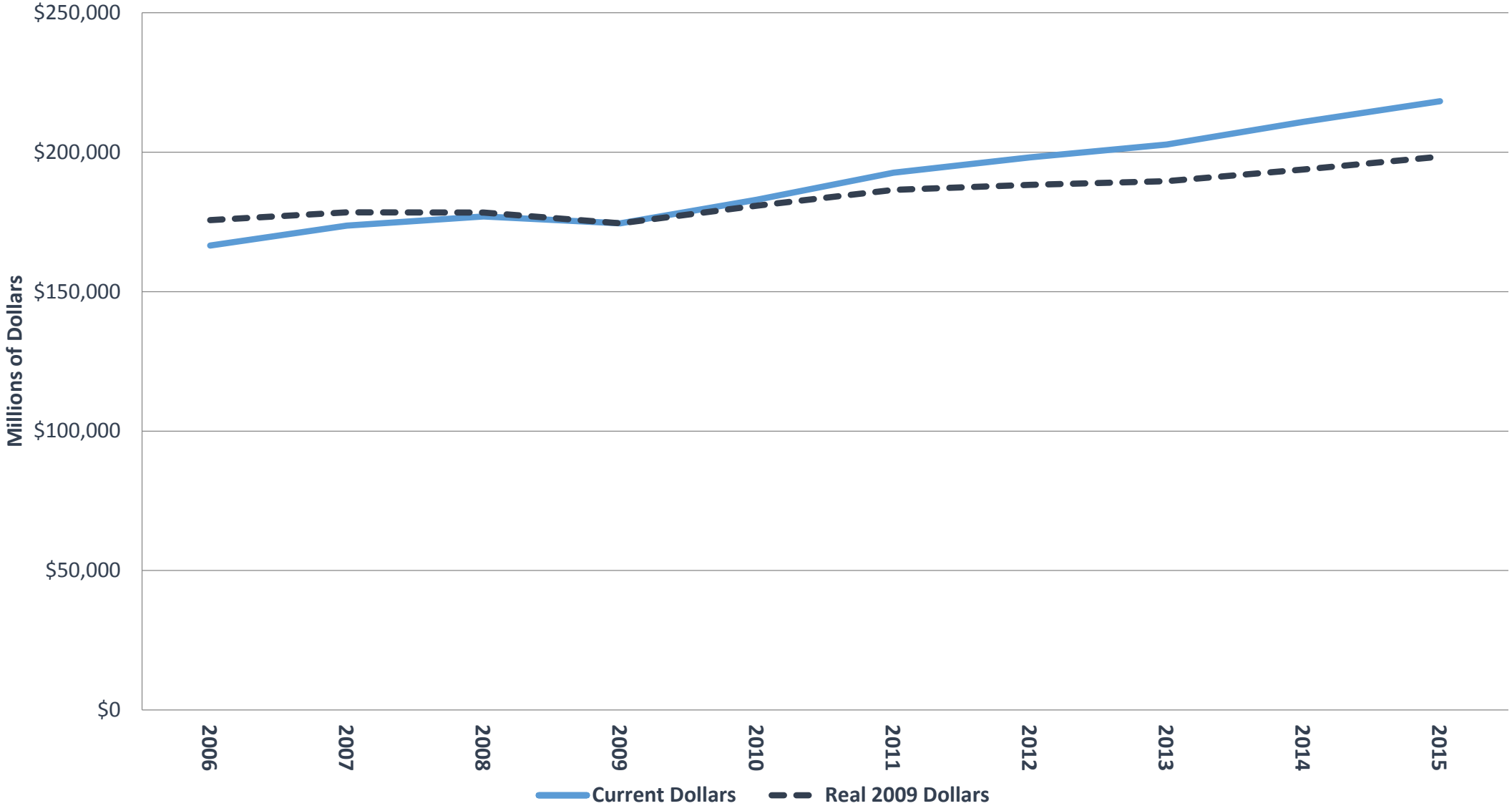
US Total Nonfarm Employment

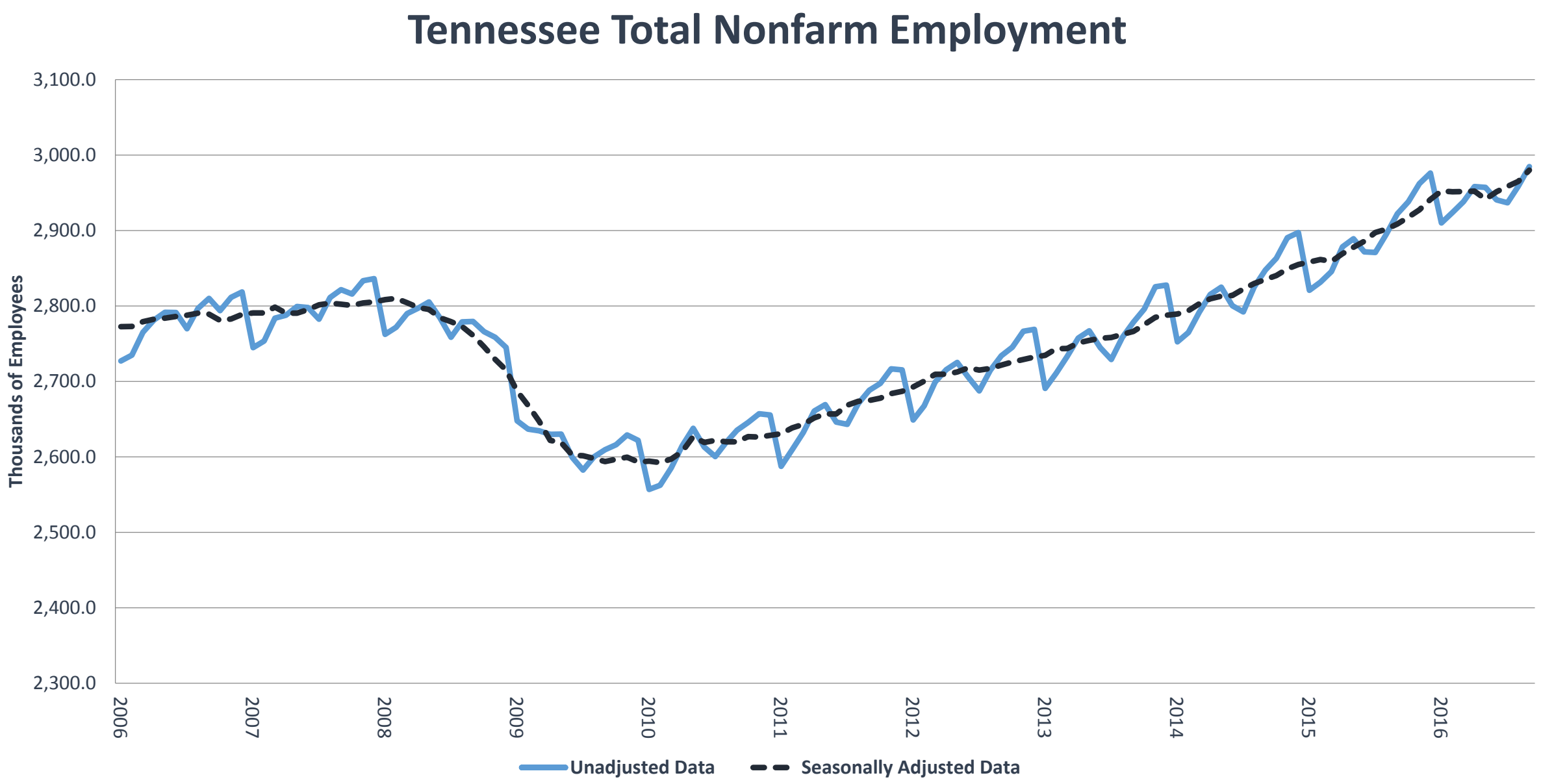


Tennessee GDP Current Dollars



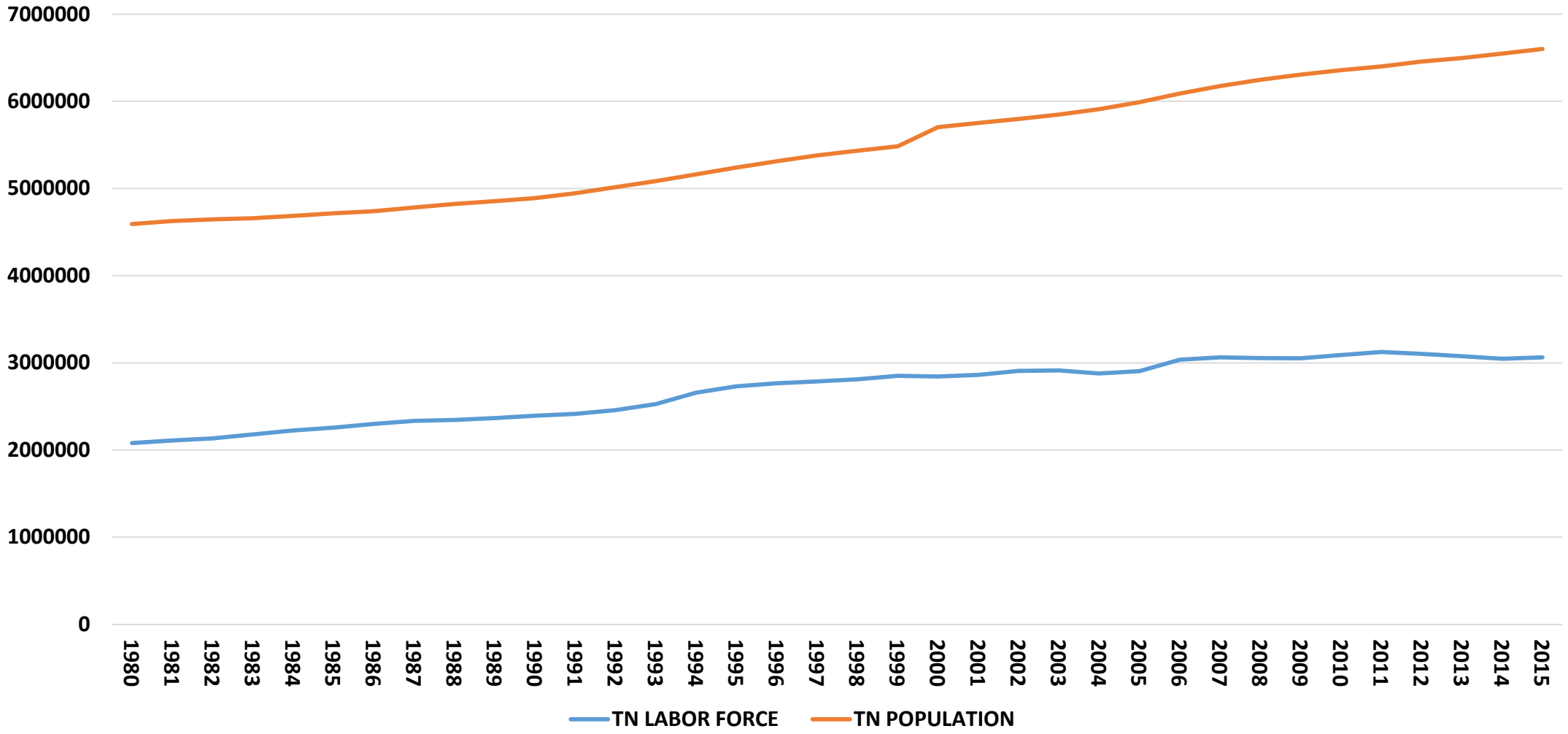
Tennessee Personal Consumption Expenditures



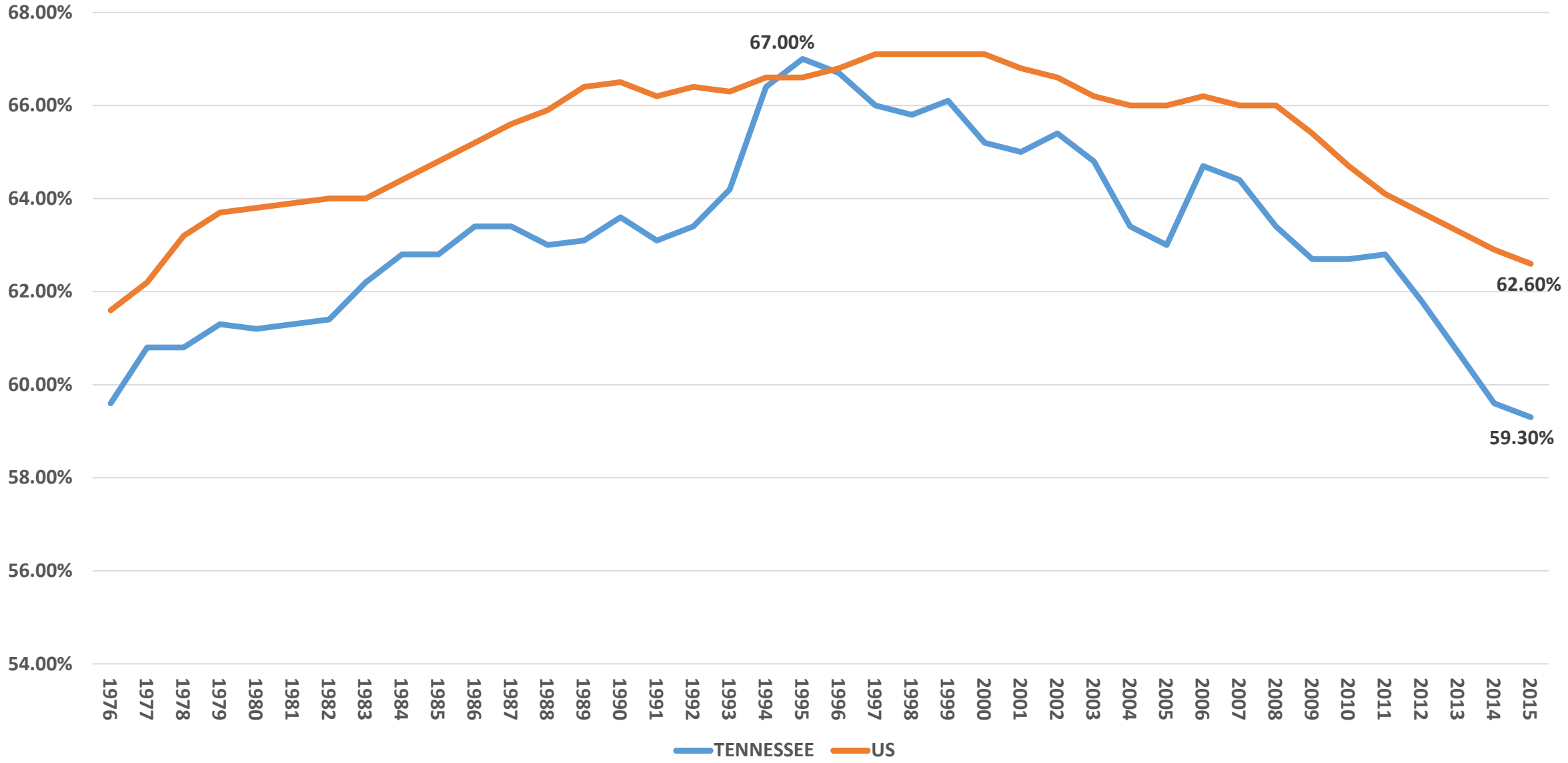

Tennessee Total Nonfarm Employment
Thousands of Employees
3,100.0
3,000.0
2,900.0
2,800.0
2,700.0
2,600.0
2,500.0
2,400.0
2,300.0
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Unadjusted Data
Seasonally Adjusted Data

TENNESSEE POPULATION AND LABOR FORCE GROWTH 1980 - 2015

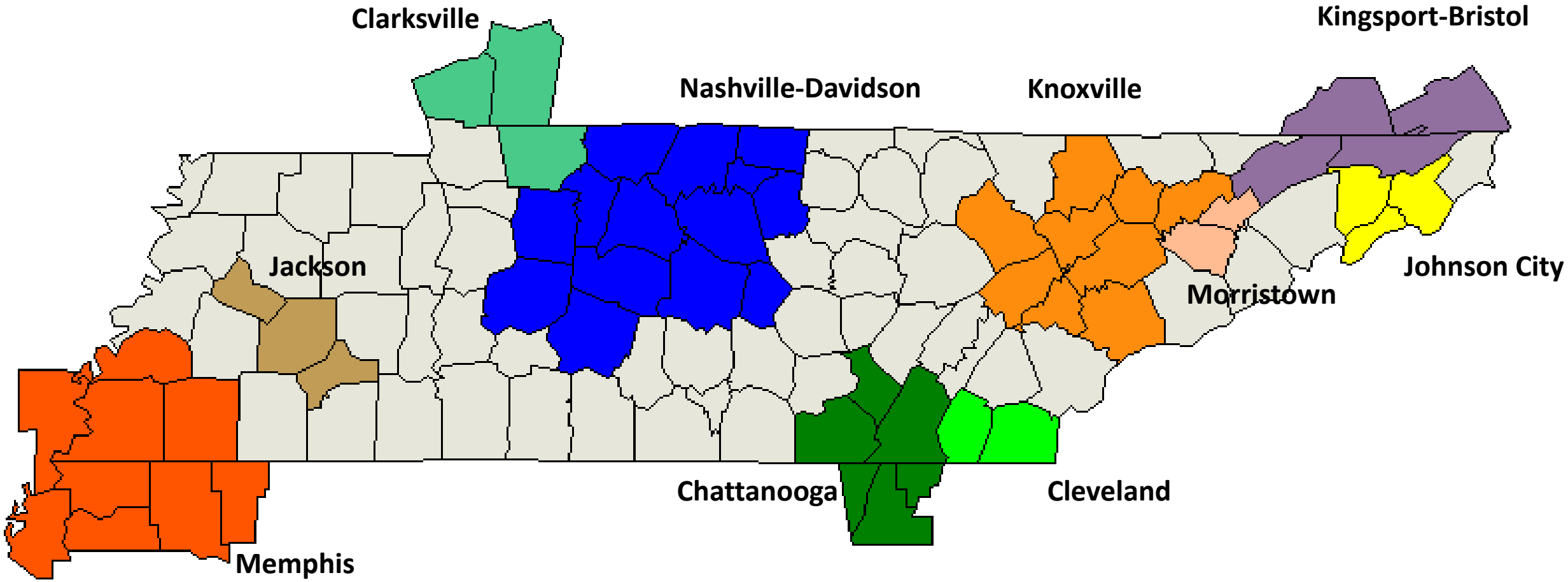
Source: U.S. Census Bureau and Bureau of Labor Statistics



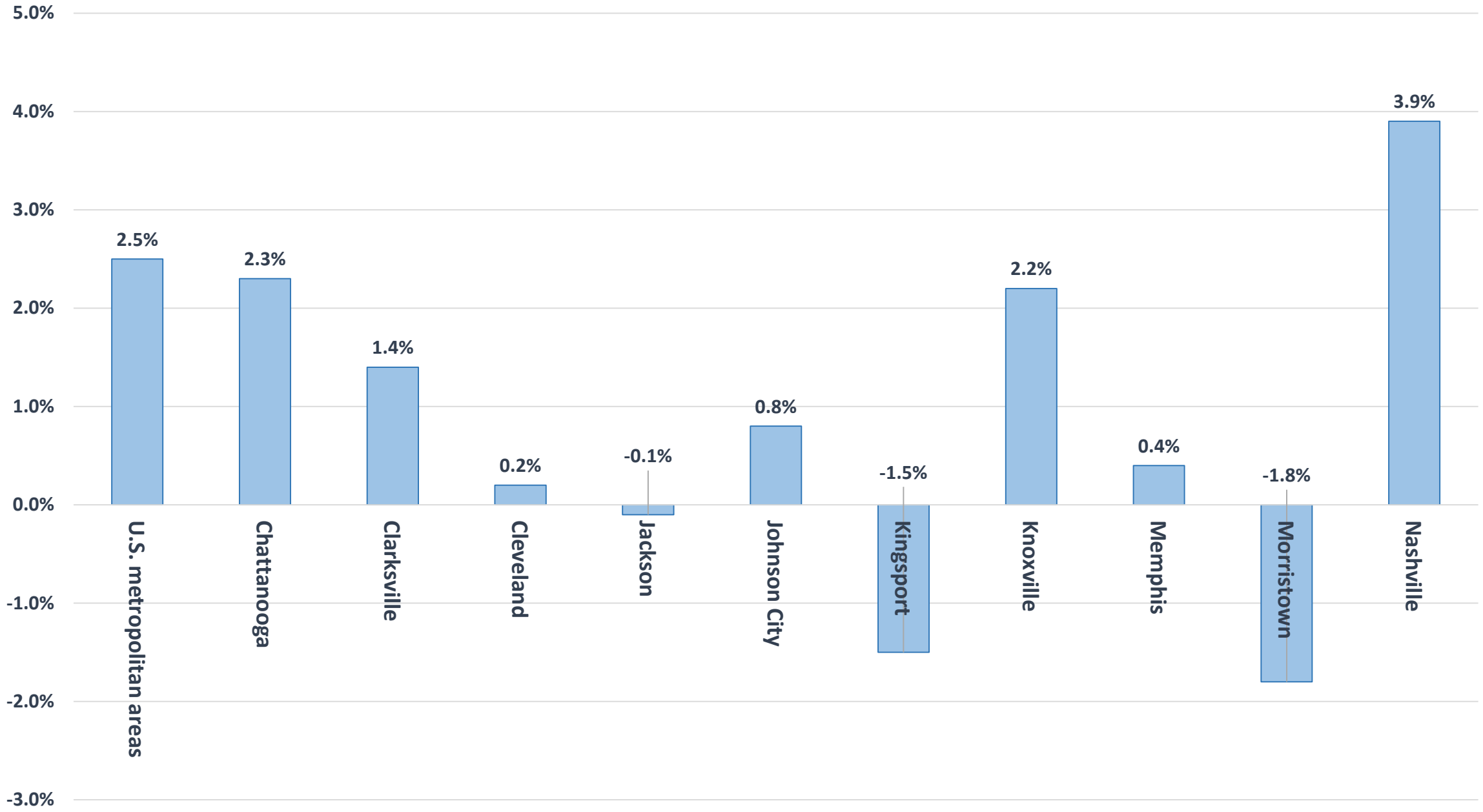
Historic Labor Participation Rates



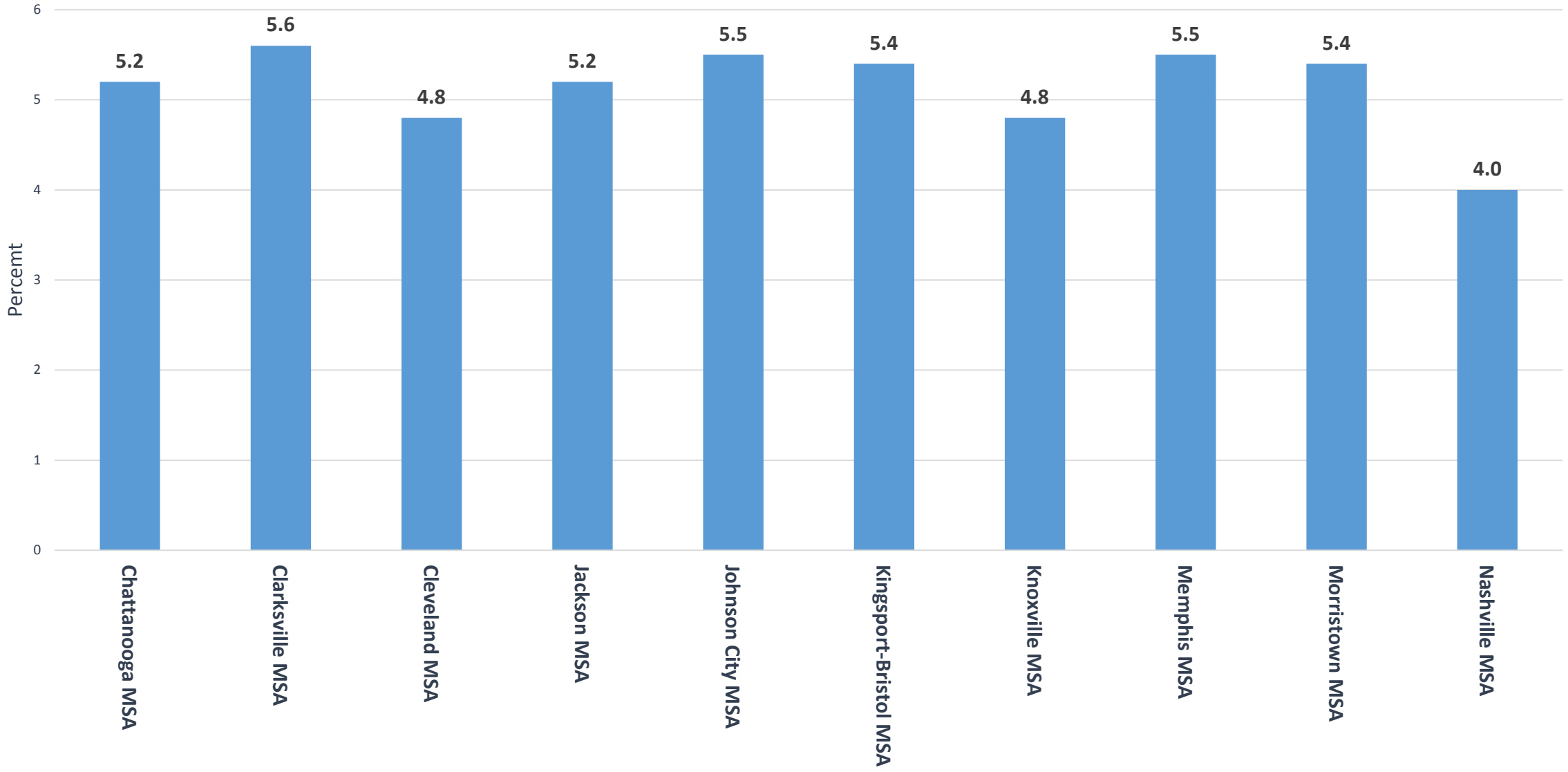
Tennessee Metropolitan Statistical Areas



Change in MSA Real Dollar GDP 2014 - 2015

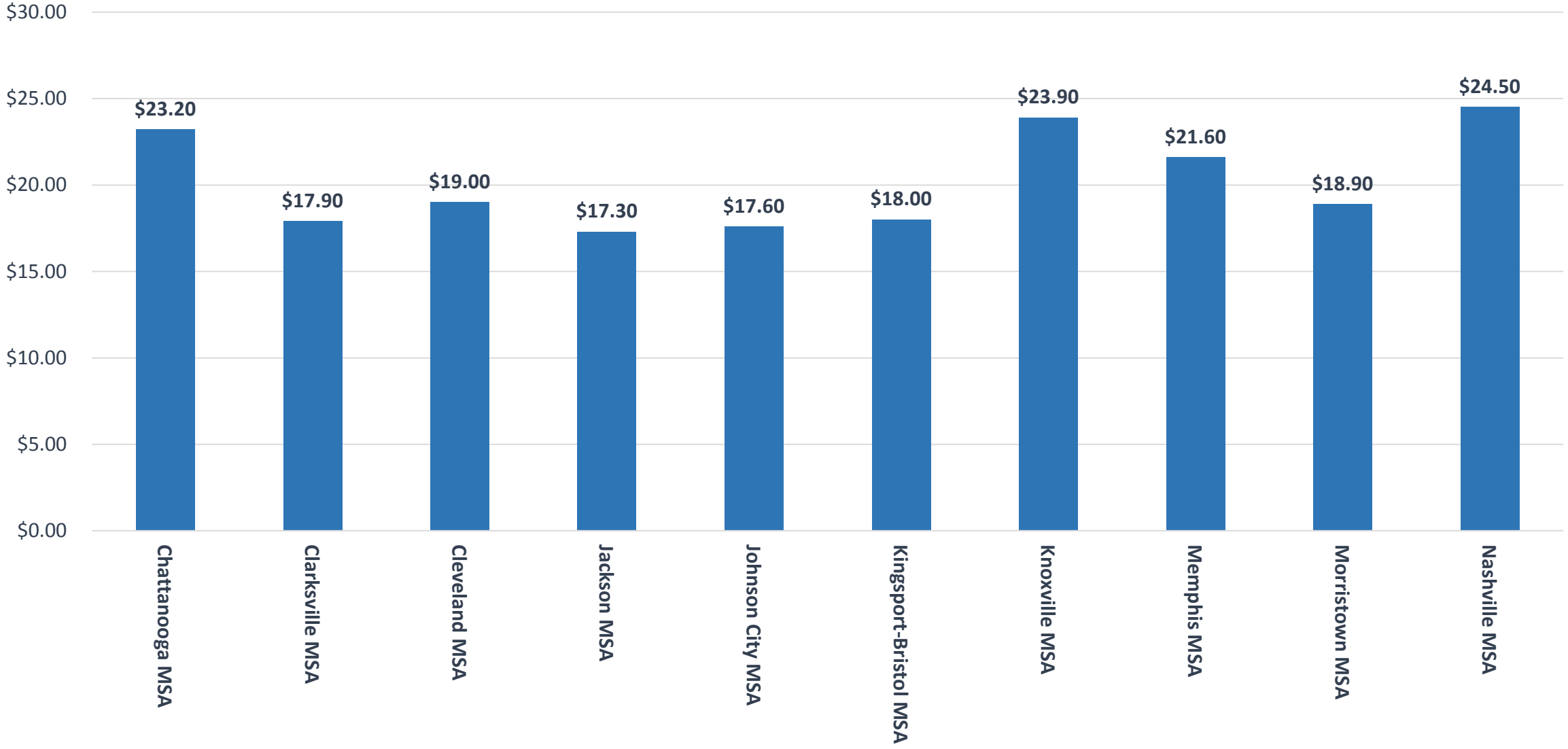


MSA Seasonally Adjusted Unemployment Rate
September 2016: State Rate 4.6%

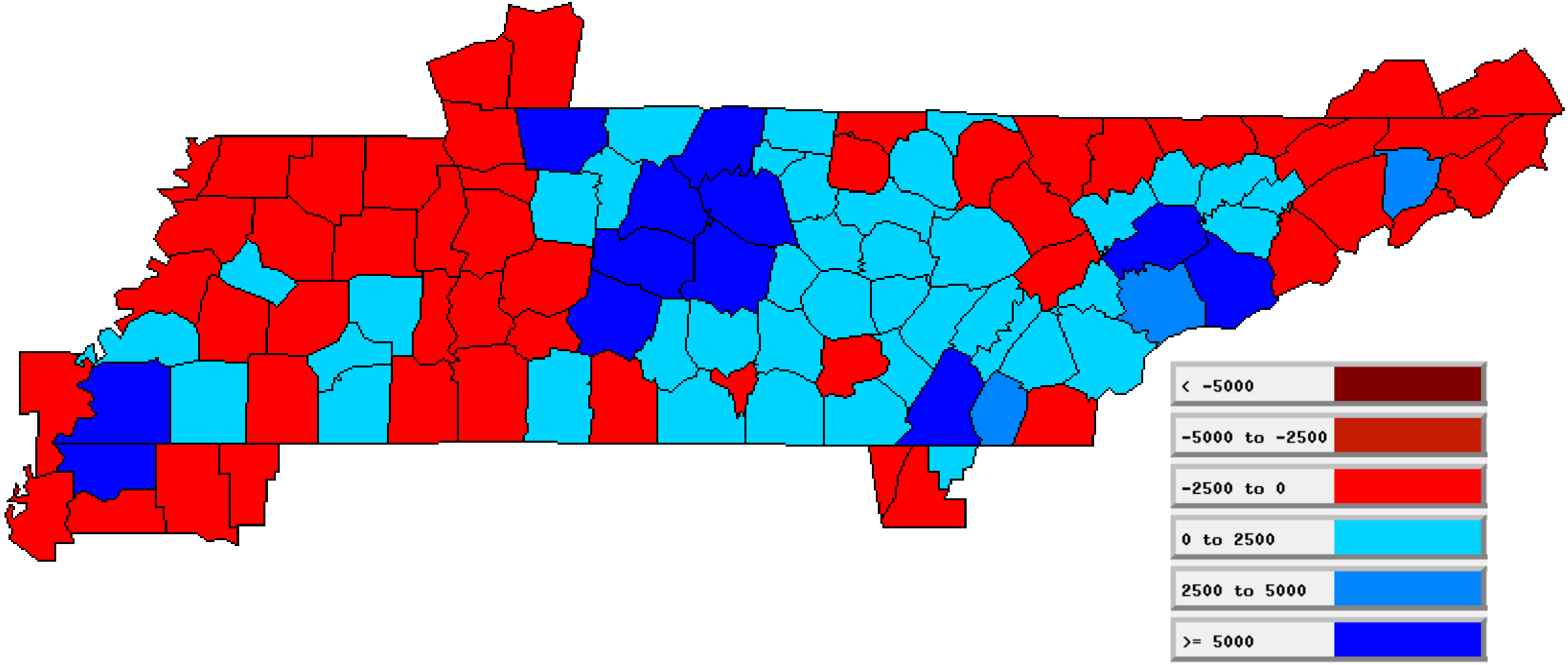


MSA Average Hourly Earnings
September, 2016 - Seasonally Adjusted

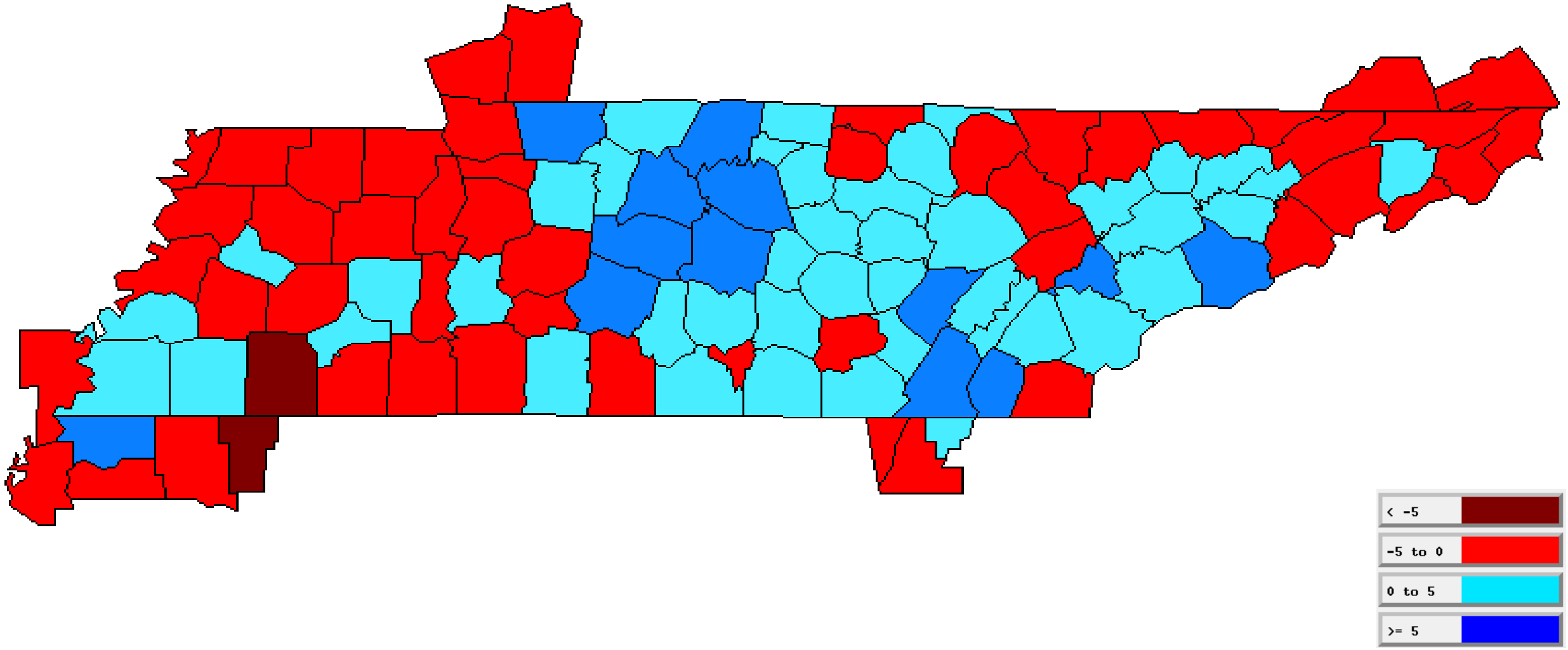
State $22.00



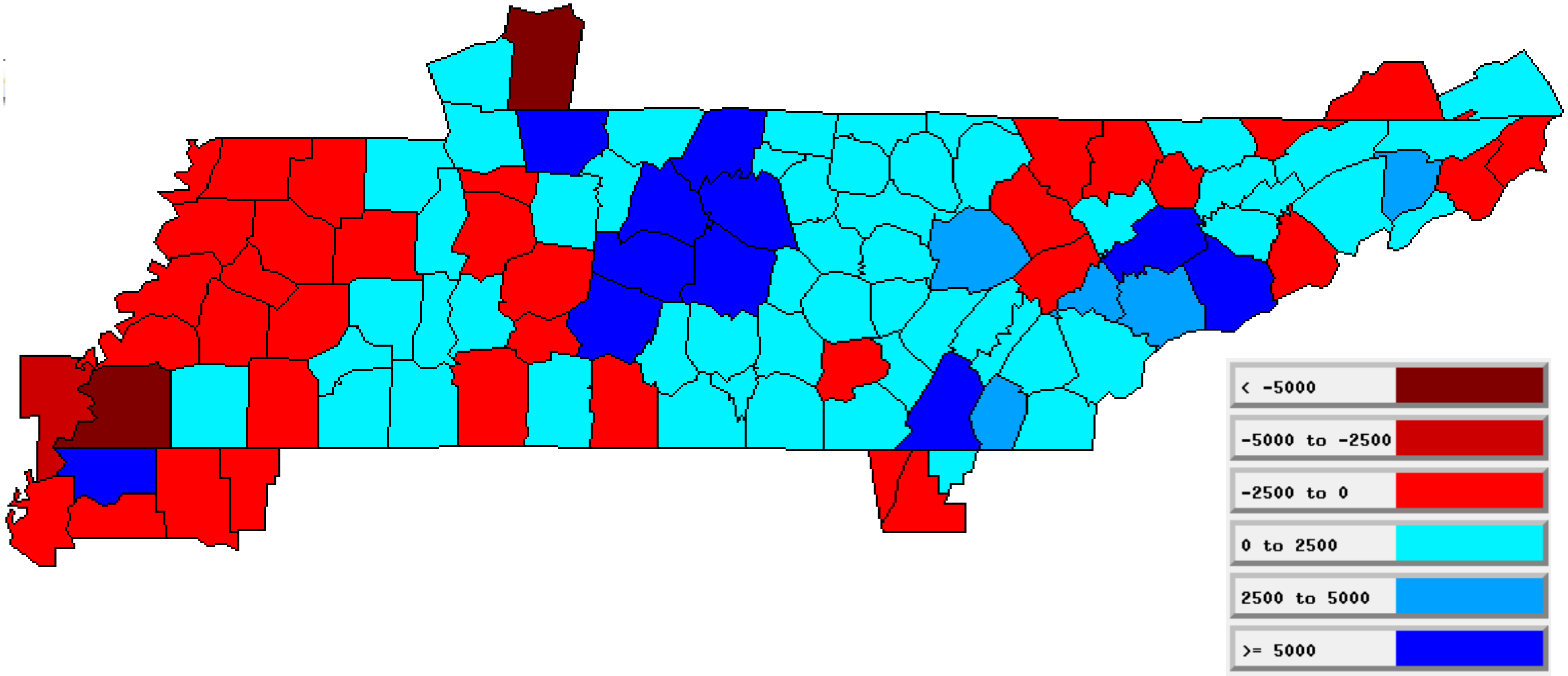
Net County Population Change: 2010 – 2015



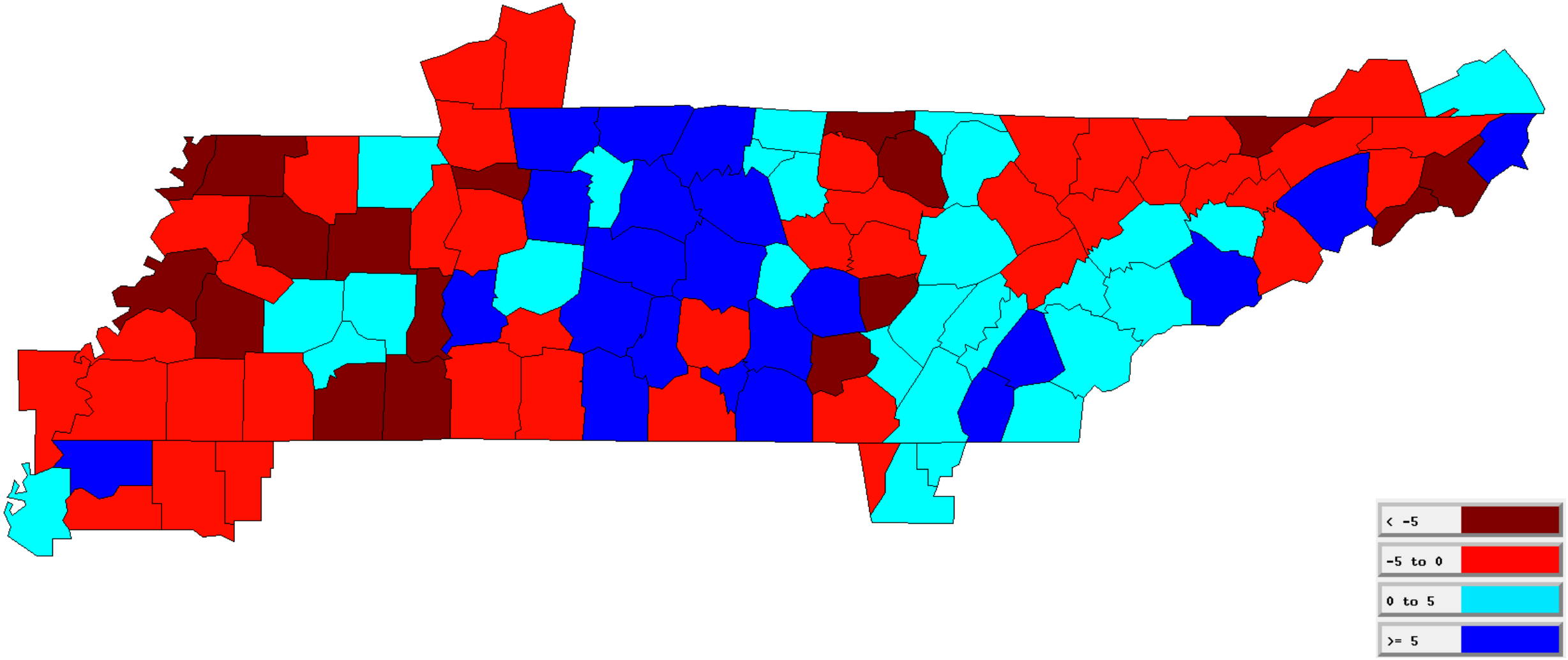
Percent Change in County Population: 2010 – 2015



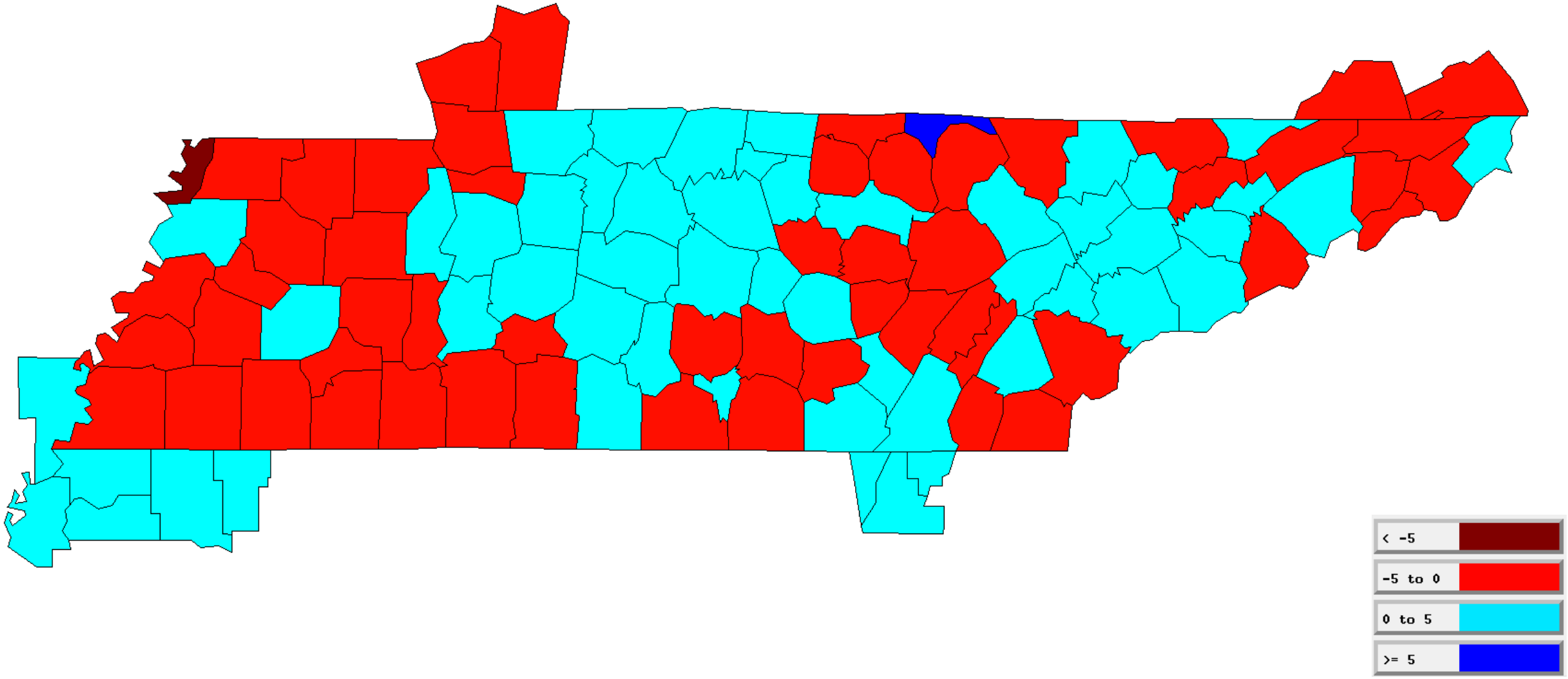
Net Population Migration: 2010 - 2015



Percent Change in Number of Persons Employed: 2014 - 2015



Percent Change in County Workforce: 2014 - 2015



ACCRUAL YEAR BASIS	ESTIMATED TENNESSEE DEPARTMENT OF REVENUE COLLECTIONS:						
	FY 15-16	FY 16 - 17		FY 17 - 18		FY 18-19	
ACCRUAL YEAR BASIS	AMOUNT	AMOUNT	PERCENT CHANGE OVER PERVIOUS YEAR	AMOUNT	PERCENT CHANGE OVER PERVIOUS YEAR	AMOUNT	PERCENT CHANGE OVER PERVIOUS YEAR
SALES & USE	$8,267,224,400	$8,574,680,000	3.7%	$8,961,590,000	4.5%	$9,365,030,000	4.5%
GASOLINE TAX	$659,915,000	$672,258,300	1.9%	$684,863,800	1.9%	$698,561,076	2.0%
MOTOR FUEL TAX	$172,336,300	$174,291,600	1.1%	$179,581,400	3.0%	$182,732,700	1.8%
GASOLINE INSPECTION TAX	$67,380,500	$69,349,500	2.9%	$69,946,700	0.9%	$70,619,300	1.0%
MOTOR VEHICLE REGISTRATION TAX	$271,197,800	$277,157,600	2.2%	$283,056,400	2.1%	$285,831,500	1.0%
INCOME TAX	$322,356,000	$267,484,400	-17.0%	$211,566,200	-20.9%	$132,228,900	-37.5%
PRIVILEGE TAX	$316,544,100	$326,182,945	3.0%	$332,249,996	1.9%	$342,719,412	3.2%
GROSS RECEIPTS TAX	$19,979,200	$26,035,200	30.3%	$26,686,000	2.5%	$27,337,000	2.4%
GROSS RECEIPTS TAX - TVA	$348,742,900	$354,520,400	1.7%	$366,172,800	3.3%	$378,194,500	3.3%
BEER TAX	$17,378,000	$18,105,500	4.2%	$18,141,700	0.2%	$18,177,900	0.2%
ALCOHOLIC BEVERAGE TAX	$62,250,200	$69,482,600	11.6%	$76,116,700	9.5%	$82,743,800	8.7%
FRANCHISE & EXCISE TAX	$2,311,705,100	$2,225,162,600	-3.7%	$2,296,961,100	3.2%	$2,393,642,800	4.2%
INHERITANCE TAX	$55,353,200	$26,686,000	-51.8%	$1,900,000	-92.9%	0	-100.0%
TOBACCO TAX	$261,480,900	$260,714,100	-0.3%	$258,039,600	-1.0%	$252,599,500	-2.1%
MOTOR VEHICLE TITLE FEES	$22,781,500	$24,150,700	6.0%	$24,664,100	2.1%	$25,423,300	3.1%
MIXED DRINK TAX	$96,275,100	$104,705,800	8.8%	$112,120,300	7.1%	$119,630,900	6.7%
BUSINESS TAX	$154,622,300	$158,092,880	2.2%	$164,827,740	4.3%	$171,420,850	4.0%
SEVERANCE TAX	$1,400,400	$1,310,200	-6.4%	$1,276,900	-2.5%	$1,269,400	-0.6%
COIN AMUSEMENT TAX	$268,500	$272,300	1.4%	$281,358	3.3%	$296,591	5.4%
UNAUTHORIZED SUBSTANCE TAX	$5,900	$5,900	0.0%	$5,900	0.0%	$5,900	0.0%
TOTAL	$13,429,197,300	$13,630,648,525	1.5%	$14,070,048,694	3.2%	$14,548,465,330	3.4%

Estimated State Tax Revenue

November 17, 2016

Fiscal Year 2016 Tax Revenue

COMPARISON OF ACTUAL ACCRUAL STATE TAX REVENUE

DEPARTMENT OF REVENUE TAXES

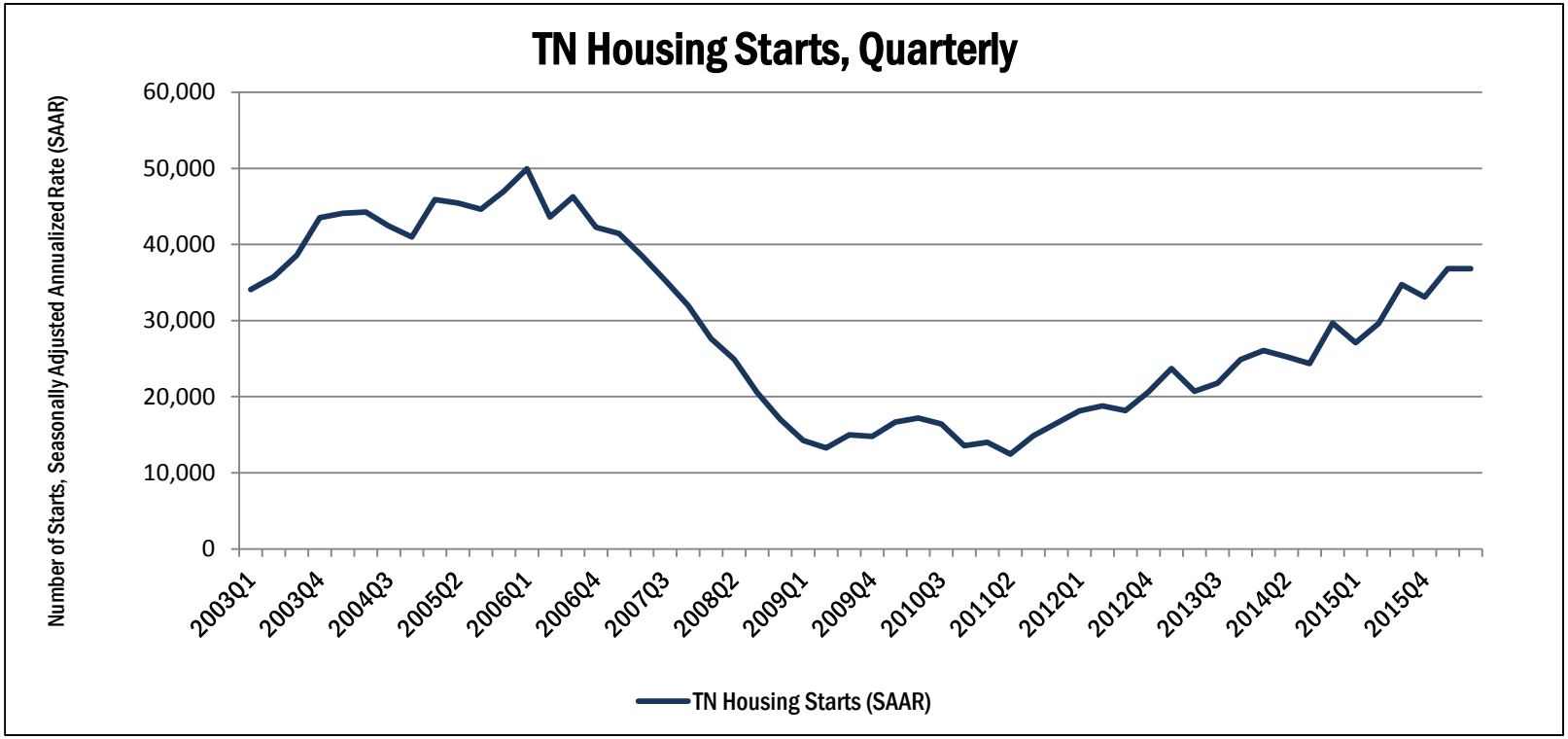
YEAR OVER YEAR COMPARISON

	Fiscal Year 2015	Fiscal Year 2016	% Change	Tax Weight	Total % Point Contribution
Sales and Use Tax	$7,706,000,000	$8,267,200,000	7.28%	60.94%	4.44%
Hall Dividend & Interest Tax	303,400,000	322,400,000	6.26%	2.40%	0.15%
Corporate Franchise and Excise Tax	2,164,500,000	2,311,700,000	6.80%	17.12%	1.16%
Gasoline Tax	631,800,000	659,900,000	4.45%	5.00%	0.22%
Other	1,839,600,000	1,868,000,000	1.55%	14.55%	0.22%
TOTAL ACCRUAL REVENUE	**$12,645,200,000**	**$13,429,200,000**	**6.20%**	**100%**	**6.20%**

*Data from F&A

Housing

- Housing starts increased 27.8% from FY 2015 – FY 2016
- By the end of FY 2017, housing starts are expected to decrease 5.24% from a year earlier



Note: Data from the U.S. Census Bureau, forecast from Moody's Analytics

Tax Implications

Direct Revenue Implications of Increased Housing Activity (Most Recent 6 Month Data)
Growth is presented as year over year (YOY)

Sales Tax Collections from Building Materials

	Collections	YOY % Growth	YOY $ Growth
May	$43,894,742	5.67%	$2,356,699
June	$39,804,234	-0.14%	-$57,202
July	$44,686,167	10.14%	$4,113,595
August	$38,067,988	2.66%	$985,993
September	$36,597,440	9.75%	$3,251,445
October	$39,263,152	5.79%	$2,149,699
		5.58%	**$12,800,229**

Privilege Tax Collections from Realty Transfer

	Collections	YOY % Growth	YOY $ Growth
May	$13,845,239	27.05%	$2,947,586
June	$15,359,185	28.55%	$3,411,344
July	$14,772,483	3.84%	$545,661
August	$13,446,374	0.12%	$15,856
September	$15,344,287	17.10%	$2,240,465
October	$13,942,522	14.50%	$1,765,861
		14.42%	**$10,926,773**

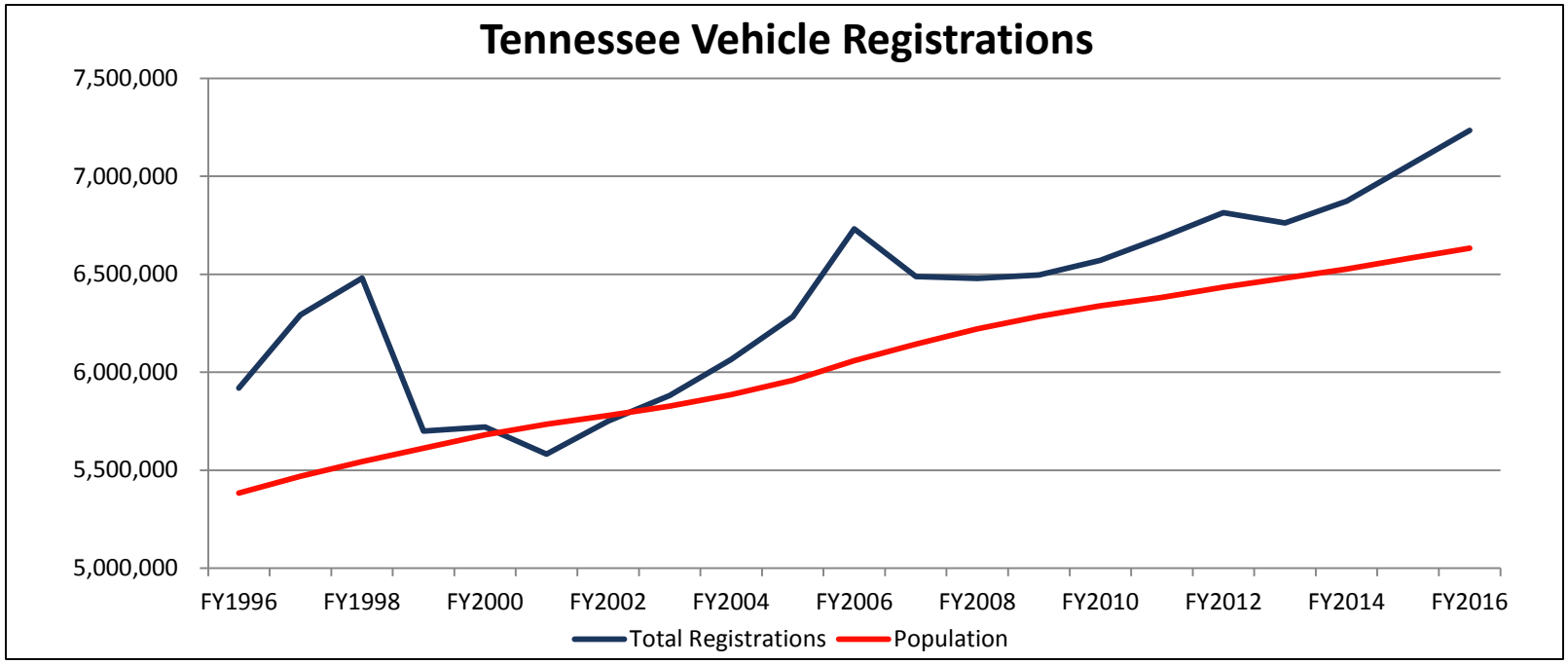
Privilege Tax Collections from Realty Mortgage

	Collections	YOY % Growth	YOY $ Growth
May	$7,128,649	28.73%	$1,590,845
June	$6,432,183	26.46%	$1,345,819
July	$6,168,410	0.30%	$18,669
August	$5,556,640	-1.92%	-$108,796
September	$7,227,967	41.95%	$2,135,913
October	$6,211,723	20.07%	$1,038,334
		18.41%	**$6,020,784**

6 Month Total Growth	**8.80%**	**$29,747,786**

Automotive

- Tennessee vehicle registrations increased 2.6% from FY 2015 – FY 2016
- By the end of FY 2017, vehicle registrations are expected to increase 2.3% from a year earlier



Note: Data and forecast from the Department of Revenue

Tax Implications

Direct Revenue Implications of Increased Automotive Activity (Most Recent 6 Month Data)

Growth is presented as year over year (YOY)

Sales Tax Collections from Motor Vehicle Dealers, New & Used

	Collections	YOY % Growth	YOY $ Growth
May	$52,946,937	8.73%	$4,253,038
June	$53,854,564	0.22%	$116,030
July	$53,554,752	4.85%	$2,479,504
August	$57,200,296	5.63%	$3,048,899
September	$59,308,175	4.88%	$2,762,171
October	$54,878,570	8.17%	$4,143,372
		5.34%	**$16,803,014**

Sales Tax Collections from Motor Vehicle Dealers, Used

	Collections	YOY % Growth	YOY $ Growth
May	$15,758,545	7.97%	$1,163,667
June	$14,778,474	-4.02%	-$618,414
July	$15,306,820	4.30%	$631,480
August	$15,737,395	6.41%	$947,678
September	$16,160,064	6.62%	$1,003,759
October	$14,880,376	-7.04%	-$1,127,169
		2.21%	**$2,001,001**

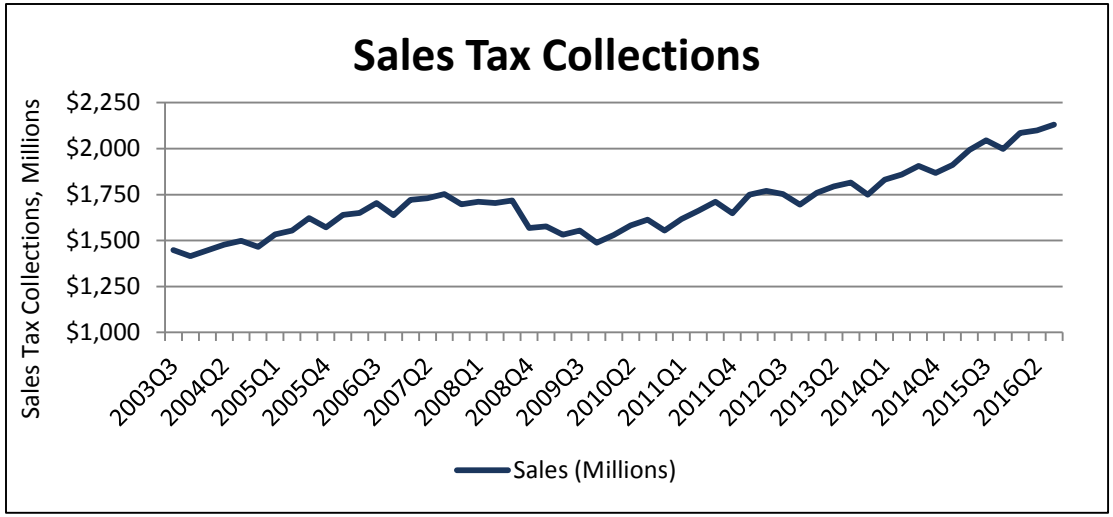
Sales Tax Collections from Auto Repair, Services, and Parking

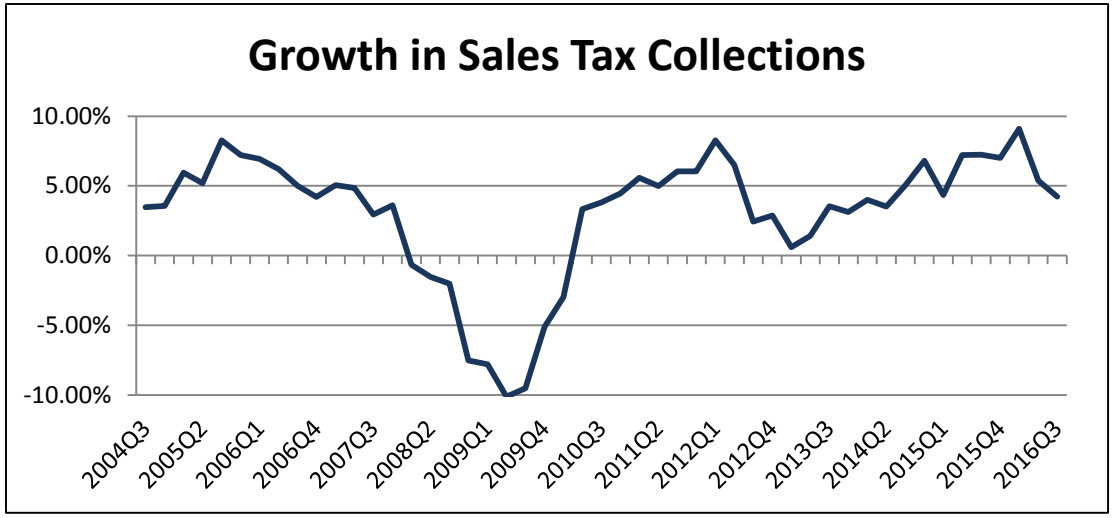
	Collections	YOY % Growth	YOY $ Growth
May	$17,393,105	2.38%	$404,317
June	$17,277,737	2.71%	$455,520
July	$18,318,173	2.82%	$502,930
August	$17,135,962	-5.30%	-$958,506
September	$18,222,516	6.15%	$1,055,510
October	$17,879,148	5.39%	$915,044
		2.29%	**$2,374,815**

6 Month Total Growth	**4.16%**	**$21,178,830**

Sales

- Sales tax collections increased 7.16% from FY 2015 – FY 2016
- By the end of FY 2017, sales tax collections are expected to increase 4.24% from a year earlier





Note: Data and forecast from the Department of Revenue

Tax Implications

Direct Revenue Implications of Increased Sales Activity (Most Recent 6 Month Data)

Growth is presented as year over year (YOY)

Sales Tax Collections from Eating & Drinking Places

	Collections	YOY % Growth	YOY $ Growth
May	$71,507,759	8.12%	$5,367,608
June	$69,698,755	0.79%	$543,205
July	$71,846,796	5.33%	$3,635,288
August	$71,410,570	4.38%	$2,996,666
September	$68,366,796	1.62%	$1,091,790
October	$70,195,021	5.51%	$3,666,388
		4.26%	**$17,300,945**

Sales Tax Collections from Hotels & Lodging Places

	Collections	YOY % Growth	YOY $ Growth
May	$20,854,139	15.27%	$2,761,818
June	$20,550,766	10.61%	$1,971,418
July	$23,072,371	9.63%	$2,026,844
August	$24,150,004	8.80%	$1,952,423
September	$19,345,931	3.84%	$715,238
October	$22,922,240	18.81%	$3,628,669
		11.08%	**$13,056,410**

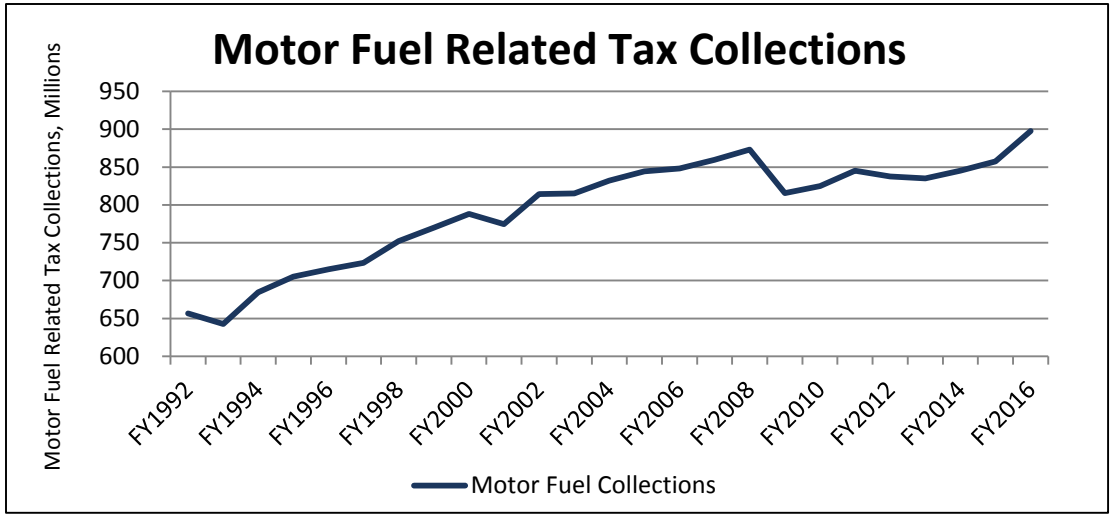
Mixed Drink (Liquor-by-the-Drink) Tax Collections

	Collections	YOY % Growth	YOY $ Growth
May	$9,378,889	20.47%	$1,593,414
June	$8,889,463	8.22%	$674,975
July	$8,384,360	11.22%	$846,111
August	$8,323,645	9.30%	$708,077
September	$8,488,811	8.41%	$658,722
October	$8,370,962	10.81%	$816,912
		11.38%	**$5,298,211**

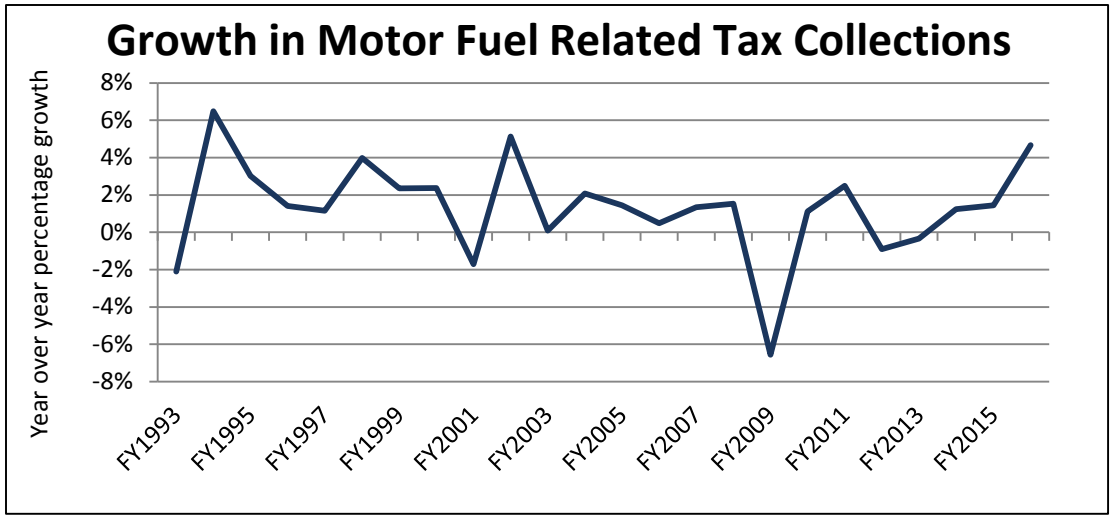
6 Month Total Growth	**6.25%**	**$35,655,566**

Motor Fuel Related Collections*

- Motor fuel related tax collections increased 4.66% from FY 2015 – FY 2016



- By the end of FY 2017, collections are expected to increase 2.48% from a year earlier



TN Department of Revenue

*Motor fuel related tax collections include collections from the gasoline tax, the motor fuel tax, and the petroleum special tax.

Note: Data and forecast from the Department of Revenue

Tax Implications

Direct Revenue Implications of Increased Motor Fuel Related Activity (Most Recent 6 Month Data)
Growth is presented as year over year (YOY)

Sales Tax Collections from Gasoline Services Stations

	Collections	YOY % Growth	YOY $ Growth
May	$12,355,940	21.84%	$2,214,746
June	$12,814,200	9.98%	$1,162,406
July	$12,914,753	13.44%	$1,530,415
August	$13,024,796	9.84%	$1,166,730
September	$13,199,968	14.82%	$1,704,234
October	$12,808,778	12.07%	$1,379,994
		13.48%	**$9,158,525**

Gasoline Tax Collections

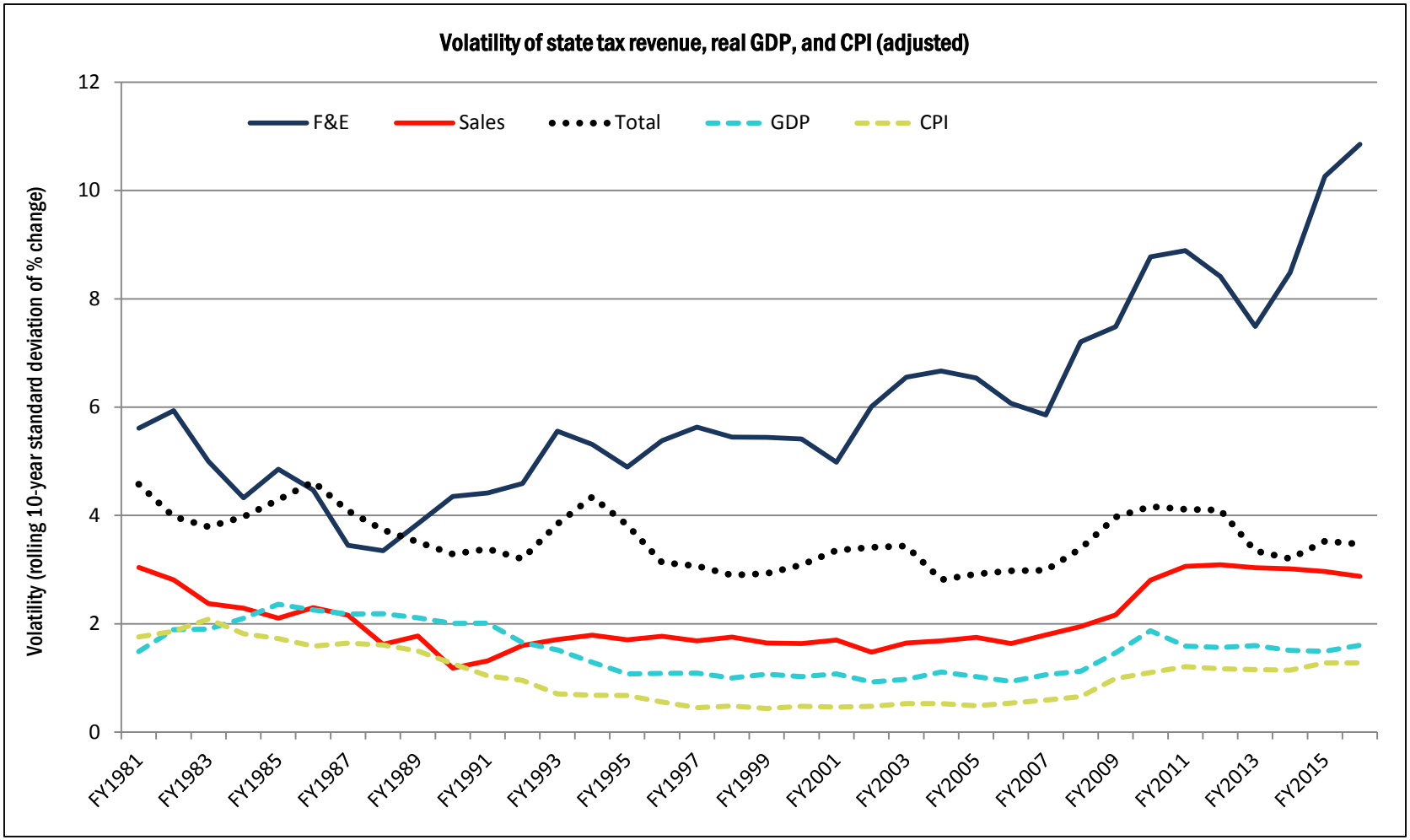
	Collections	YOY % Growth	YOY $ Growth
May	$54,315,510	2.39%	$1,266,014
June	$58,521,618	2.79%	$1,589,819
July	$61,933,393	4.08%	$2,426,641
August	$56,224,386	-0.50%	-$283,005
September	$59,249,931	4.86%	$2,747,562
October	$49,438,367	-7.63%	-$4,081,801
		1.09%	**$3,665,230**

Motor Fuel Tax Collections

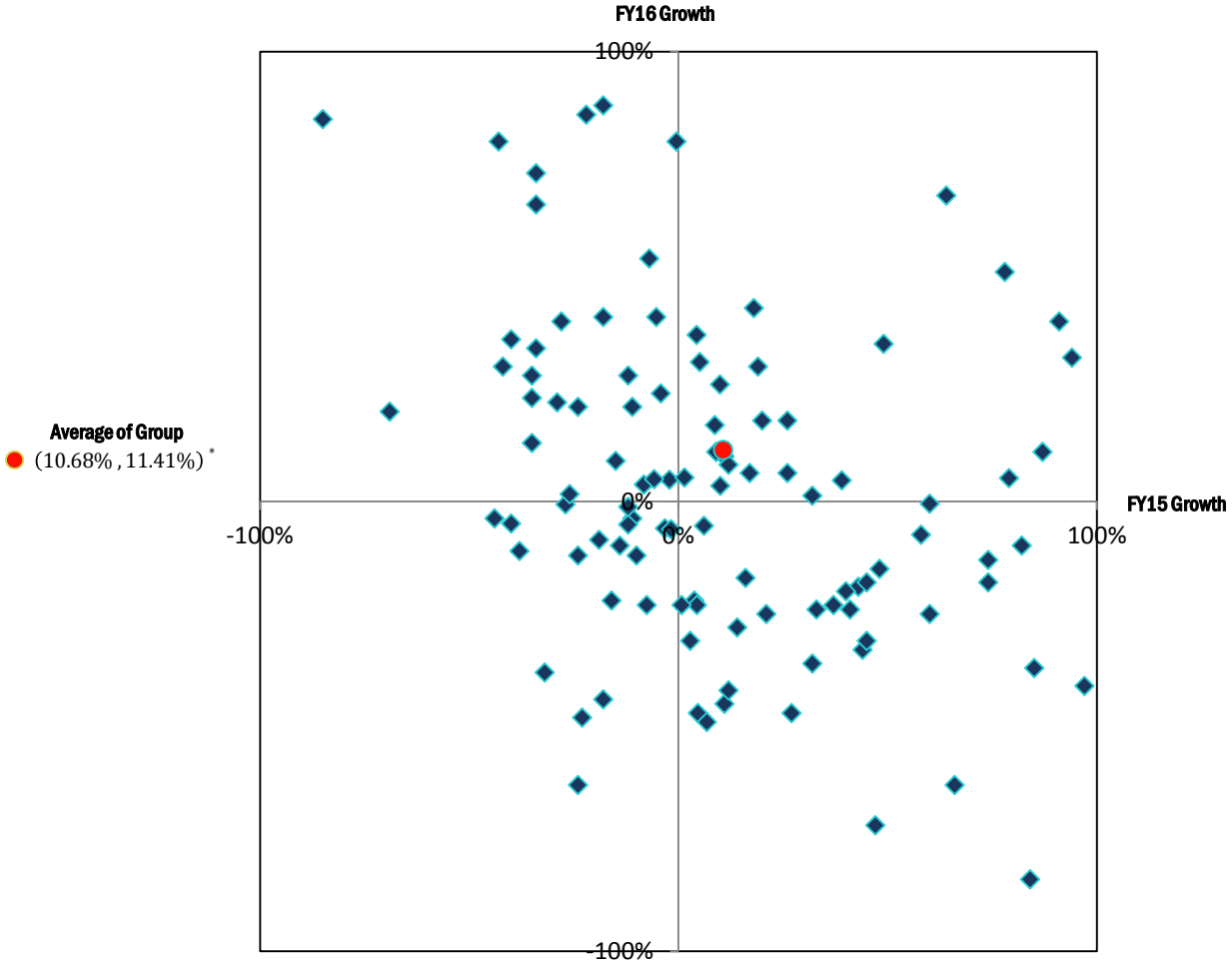
	Collections	YOY % Growth	YOY $ Growth
May	$12,043,382	-15.52%	-$2,212,632
June	$14,739,943	8.97%	$1,213,843
July	$16,273,978	1.08%	$174,050
August	$13,544,982	8.83%	$1,098,783
September	$14,918,182	2.07%	$302,404
October	$16,825,185	3.43%	$557,953
		1.30%	**$1,134,401**

	6 Month Total Growth	**2.84%**	**$13,958,156**

Tennessee Tax Volatility Comparison



YOY Change in Collections - Selected F&E Taxpayers



- This graph shows growth rates of F&E accounts with collections greater than $1M in the last three fiscal years and growth rates less than 100%.
- There is inherent volatility in F&E collections even among the taxpayers with the highest annual collections.

*Several large non-recurring items were removed to give a more accurate reflection of growth in F&E collections.

F&E Payment History

FY	Month	Franchise Return	Excise Return	Net Estimated Payments	Reported Total
2014	Jul-13	34,538,002	121,328,747	(89,337,993)	66,528,755
2014	Aug-13	23,493,846	35,107,726	(26,946,250)	31,655,323
2014	Sep-13	97,849,514	198,430,981	(19,196,225)	277,084,270
2014	Oct-13	231,161,623	400,009,346	(587,942,518)	43,228,451
YTD Jul-13 thru Oct-13		387,042,985	754,876,800	(723,422,986)	418,496,799
2014	Nov-13	50,078,867	71,596,808	(87,024,364)	34,651,311
2014	Dec-13	36,957,768	66,926,206	95,663,489	199,547,462
2014	Jan-14	26,435,622	30,084,111	83,150,464	139,670,197
2014	Feb-14	15,967,276	24,417,219	(2,270,617)	38,113,879
2014	Mar-14	48,029,819	68,850,377	71,343,409	188,223,605
2014	Apr-14	85,164,839	126,840,089	247,123,560	459,128,489
2014	May-14	21,922,043	30,649,115	(6,062,319)	46,508,839
2014	Jun-14	15,638,975	22,713,975	290,755,485	329,108,434
FY 2014 Total		687,238,195	1,196,954,700	(30,743,879)	1,853,449,015
2015	Jul-14	30,398,863	149,033,591	(110,956,514)	68,475,939
2015	Aug-14	29,902,427	41,311,672	(36,629,557)	34,584,541
2015	Sep-14	110,332,720	173,782,799	34,382,180	318,497,698
2015	Oct-14	225,936,479	385,523,895	(584,640,584)	26,819,791
YTD Jul-14 thru Oct-14		396,570,488	749,651,957	(697,844,476)	448,377,969
2015	Nov-14	48,602,699	67,463,851	(99,929,655)	16,136,895
2015	Dec-14	25,951,903	22,764,205	170,553,335	219,269,443
2015	Jan-15	17,509,536	36,437,267	269,332,339	323,279,141
2015	Feb-15	16,433,188	34,559,195	(934,257)	50,058,125
2015	Mar-15	55,322,465	89,991,156	51,031,799	196,345,419
2015	Apr-15	82,622,291	136,218,139	296,625,675	515,466,104
2015	May-15	21,730,326	36,868,954	7,788,170	66,387,450
2015	Jun-15	18,186,079	27,137,565	310,885,213	356,208,857
FY 2015 Total		682,928,974	1,201,092,288	307,508,142	2,191,529,404

FY	Month	Franchise Return	Excise Return	Net Estimated Payments	Reported Total
2016	Jul-15	30,358,004	83,818,024	(33,674,495)	80,501,532
2016	Aug-15	34,463,474	211,462,095	(234,091,138)	11,834,432
2016	Sep-15	129,639,680	223,320,743	7,793,729	360,754,153
2016	Oct-15	260,999,516	488,041,213	(671,655,187)	77,385,542
YTD Jul-15 thru Oct-15		455,460,674	1,006,642,075	(931,627,091)	530,475,659
2016	Nov-15	41,634,293	60,113,054	(60,636,876)	41,110,471
2016	Dec-15	19,432,574	35,324,387	215,766,251	270,523,212
2016	Jan-16	28,380,286	54,496,118	108,477,679	191,354,083
2016	Feb-16	22,978,337	43,659,841	(17,001,390)	49,636,788
2016	Mar-16	65,308,500	113,403,374	71,557,545	250,269,419
2016	Apr-16	93,884,592	153,621,558	278,717,735	526,223,885
2016	May-16	13,814,167	20,143,324	20,059,374	54,016,865
2016	Jun-16	27,395,204	41,800,541	329,216,979	398,412,724
FY 2016 Total		768,288,628	1,529,204,272	14,530,206	2,312,023,106
2017	Jul-16	34,400,571	118,578,558	(96,678,355)	56,300,774
2017	Aug-16	35,826,068	68,563,509	(62,326,948)	42,062,630
2017	Sep-16	121,925,876	192,328,214	90,595,834	404,849,924
2017	Oct-16	282,327,770	525,743,742	(741,845,308)	66,226,204
YTD Jul-16 thru Oct-16		474,480,285	905,214,023	(810,254,777)	569,439,531
FY 2017 Total		474,480,285	905,214,023	(810,254,777)	569,439,531

TN Department of Revenue

Note: Totals may differ because of rounding

Public Chapter 92 of 2015

- Requires the Department to include in its estimates of franchise and excise tax revenue growth a description of whether the growth is recurring or nonrecurring.

- Unforeseen events can result in large, non-recurring changes in tax collections.
  - Mergers & Acquisitions
  - Audit Assessments
  - Voluntary Disclosure Agreements
  - Litigation

Non-Recurring Items

- Analyze daily tax revenue collections relative to previous years and budget estimates.
- Identify extraordinary or unusual payments using the Department of Revenue Business Intelligence tool and SAS programs.
- Focus analysis at the taxpayer level to identify the nature of payments and possible implications to total tax collections for the month.
- Maintain a list of one-time events and analyze any impact these payments may have on the following fiscal year.

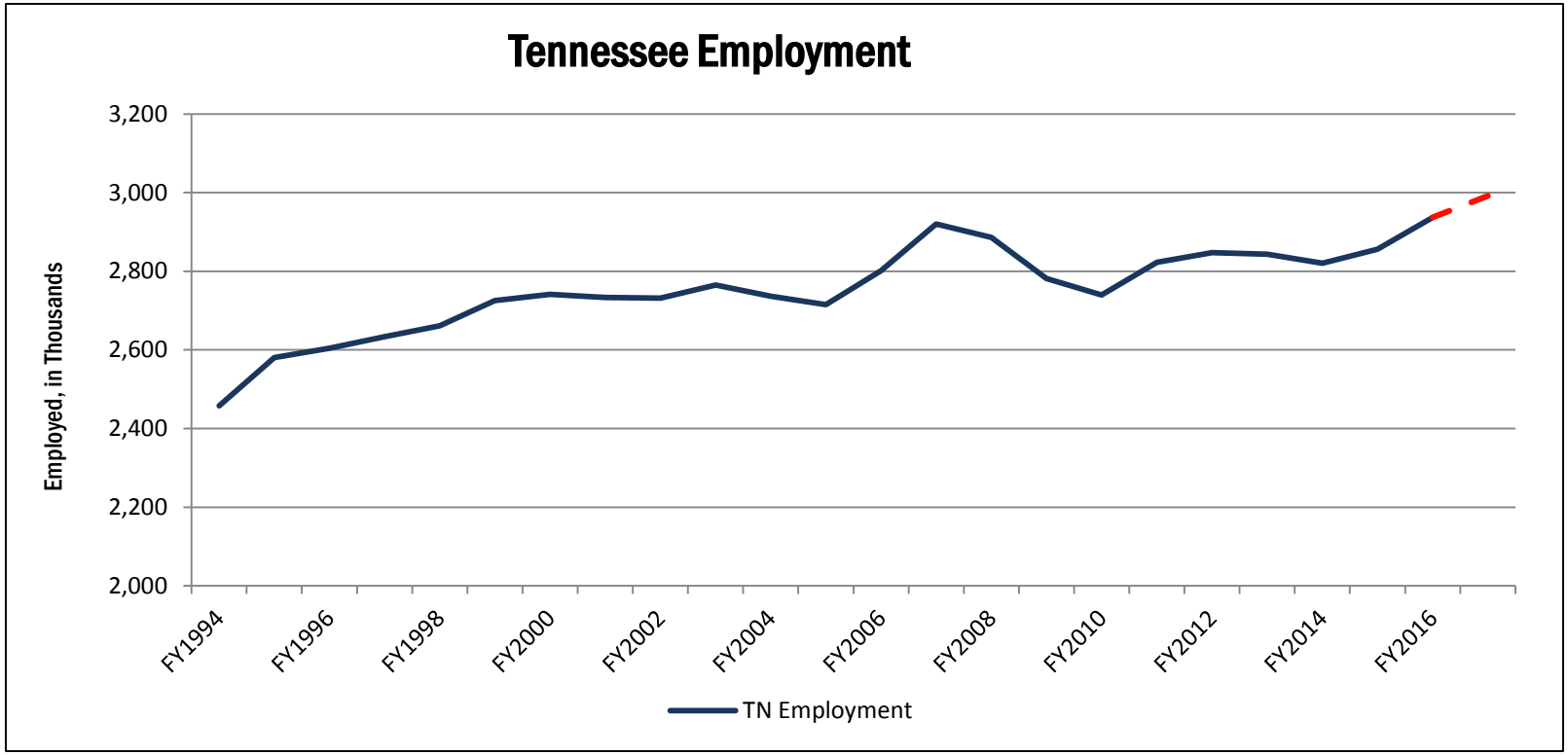
Public Chapter 92 of 2015

- There are no known non-recurring items included in the estimates for fiscal year 2017, but the Department is anticipating approximately $180 million in non-recurring payments in FY 2017. These payments are not included in the estimates for FY 2017.

- The fiscal year 2018 estimates do not include revenue estimates for any proposed or potential rule changes.

Tennessee Employment

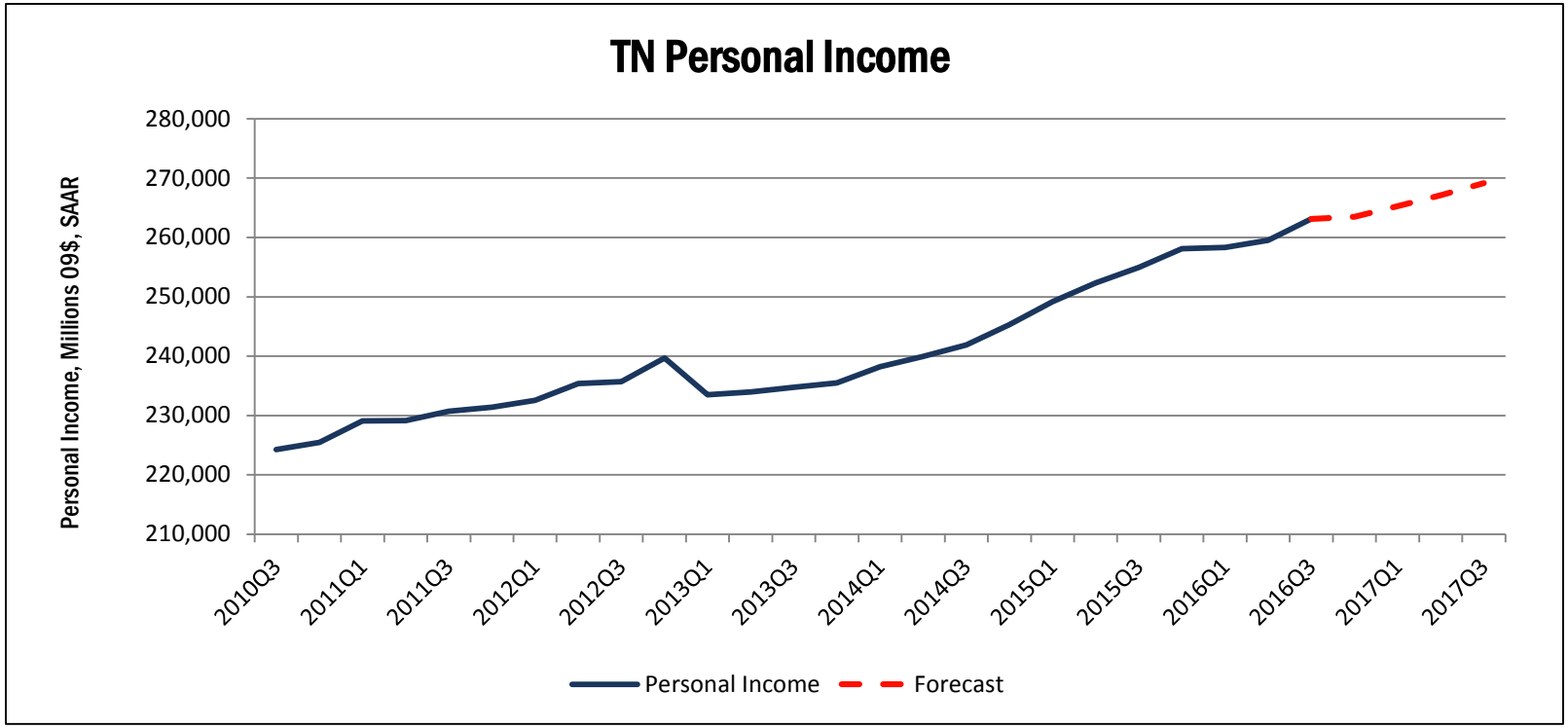
- Strong growth in employment
- Steady employment growth is expected over the forecast horizon



Note: Data from the Bureau of Labor Statistics, forecast from Moody's Analytics

Tennessee Personal Income

- Personal income gains of 4.27% for FY 2016
- Personal income gains of 2.73% are expected for FY 2017, led by growth in dividends, interest, and rents



Note: Data from the Bureau of Economic Analysis, forecast from Moody's Analytics

TN Department of Revenue

REVENUE COLLECTION ESTIMATES
STATE FUNDING BOARD MEETING - 11/17/2016
Accrual year basis (USD)

SOURCE OF REVENUE

Department of Revenue	Accrual Revenues FY 2016 Actual	official Revenue Estimates FY2017	FY 2017 Revised Estimates FY 2017	% change[2] over FY 2016	FY 2018 Revenue Estimates FY 2018	% change[2] over FY 2017
Sales and Use Tax	$8,267,200,000	$8,272,700,000	8,601,200,000	4.04%	8,911,100,000	3.60%
Gasoline Tax	659,900,000	632,700,000	669,500,000	1.45%	685,400,000	2.37%
Motor Fuel Tax	172,300,000	170,200,000	177,400,000	2.96%	183,300,000	3.33%
Gasoline Inspection Tax	67,400,000	66,100,000	69,200,000	2.67%	70,100,000	1.30%
Motor Vehicle Registration Tax	271,200,000	261,900,000	280,900,000	3.58%	289,100,000	2.92%
Income Tax	322,400,000	296,000,000	286,100,000	-11.26%	299,000,000	4.51%
Privilege Tax[1]	316,500,000	333,400,000	335,000,000	5.85%	353,900,000	5.64%
Gross Receipts Tax - TVA	348,700,000	355,000,000	342,200,000	-1.86%	346,600,000	1.29%
Gross Receipts Tax - Other	20,000,000	31,200,000	28,400,000	42.00%	29,700,000	4.58%
Beer Tax	17,400,000	17,100,000	17,600,000	1.15%	17,900,000	1.70%
Alcoholic Beverage Tax	62,300,000	62,300,000	65,800,000	5.62%	69,400,000	5.47%
Franchise & Excise Tax	2,311,700,000	2,133,400,000	2,367,600,000	2.42%	2,483,300,000	4.89%
Inheritance and Estate Tax	55,400,000	14,500,000	14,500,000	-73.83%	1,900,000	-86.90%
Tobacco Tax	261,500,000	260,700,000	259,800,000	-0.65%	258,400,000	-0.54%
Motor Vehicle Title Fees	22,800,000	18,800,000	24,100,000	5.70%	24,600,000	2.07%
Mixed Drink Tax	96,300,000	94,100,000	106,100,000	10.18%	116,200,000	9.52%
Business Tax	154,600,000	155,200,000	165,900,000	7.31%	176,600,000	6.45%
Severance Tax	1,400,000	2,000,000	1,200,000	-14.29%	1,300,000	8.33%
Coin-operated Amusement Tax	300,000	300,000	300,000	0.00%	300,000	0.00%
Total Department of Revenue	**$13,429,300,000**	**$13,177,600,000**	**$13,812,800,000**	**2.86%**	**$14,318,100,000**	**3.66%**
General Fund Only	**$11,257,100,000**	**$11,056,900,000**	**$11,599,800,000**	**3.04%**	**$12,032,400,000**	**3.73%**

[1]Privilege excludes $43.0 million dollar earmark not included by F&A

[2]Percent change in revenue for each tax is the calculated percentage change *after* rounding to nearest $100,000

Note: Totals may differ due to rounding

Definitions and Sources

- SAAR = Seasonally Adjusted Annualized Rate
- FY = Fiscal Year
- TN = Tennessee
- Data Sourced From:
  - Moody's Analytics (Fall, 2016)
  - BEA (Fall, 2016)
  - BLS (Fall, 2016)
  - U.S. Census Bureau (Fall, 2016)
  - TN Department of Revenue (Fall, 2016)
  - TN Department of Finance & Administration (Fall, 2016)

Tennessee Tax Revenue Estimates for FY2016-2017 and FY2017-2018

Prepared by:
Fiscal Review Committee Staff

November 17, 2016

Economic Baseline

- Total nonfarm payrolls have continued steady growth.
- Last 12 months (OCT 2015 to OCT 2016): added ≈ 2,400,000 jobs.
- Unemployment rate now 4.9% (OCT) in U.S.; 4.6% in TN (SEP).
- Labor force participation rate has been between 62% - 63%.
- Wages have been stagnant.
- Low crude (and gas) prices.
- Overall inflation has been very low.
  - CPI (all urban consumers, all items) = Nov 2015: 0.44%; July 2016: 0.87%.
- Historically low cost of capital.
- Financial markets have been somewhat volatile, but have held onto the gains experienced over last few years.

Economic Baseline

- Good housing market; especially hot in certain areas of TN.
- Retail sales (excluding food services) picked up slightly in 2016:
  - 2015 over 2014 = 1.6%; YTD 2016 over 2015 ≈ 2.2%
- Consumer Confidence Index – up in both August & September (highest since recession); but was down in October.
- Economic uncertainty due to the Presidential election; probably hampered economic growth to some degree.
- U.S. Dollar ($) has strengthened; negatively impacted exports.
- GDP growth: Q4 2015: 1.4%; Q1 2016: 1.1%; Q2 2016: 1.2%.
- TN closed out FY15-16 with 5.6% growth in tax revenue (cash basis); 6.2% (accrual basis).
- So…what happens now?

Economic Outlook (Short term)

- Short term prognosis (thru end of FY16-17) is "continued slow growth".
- Moderate GDP growth forecasts (WSJ Survey): 2.9% in Q3 2016 (advanced preliminary estimate); 2.3% in Q4 2016; 2.2% in Q1 2017; and 2.3% in Q2 2017.
- Expectations for retail sales are good:
  - 2016 Holiday sales growth rate forecast is 3.7% per National Retail Federation; was 3.6% in 2015.
- U.S. (ISM) Manufacturing Index rose to 51.9 in October.
- Employment numbers should continue to improve (marginally).
- Wage growth is starting to become more evident.
  - Federal Reserve Bank (Atlanta) Wage Growth Tracker (non-smoothed) – up 4.2% in September 2016.

Economic Outlook (Short term)

- With wages starting to rise, prices are likely to pick up.
  - CPI (all items) up to 1.5% in Sep. 2016 (2-year high).
- Slight upward price pressures; but still relatively low core inflation expectations (WSJ Survey): 1.7% in Dec. 2016; and 2.1% in June 2017.
- Crude prices expected to remain relatively low for some time – below $60/barrel thru December 2018 (WSJ Survey).
- Housing still has room for growth.
  - Increasing demand ≈ increasing prices: up in October by 5.2%.
  - More first-time home buyers – 34% of all buyers in September.
- Millennials are slowly starting to consume more.
- Marginally increasing consumer demand ≈ moderate tax revenue growth.

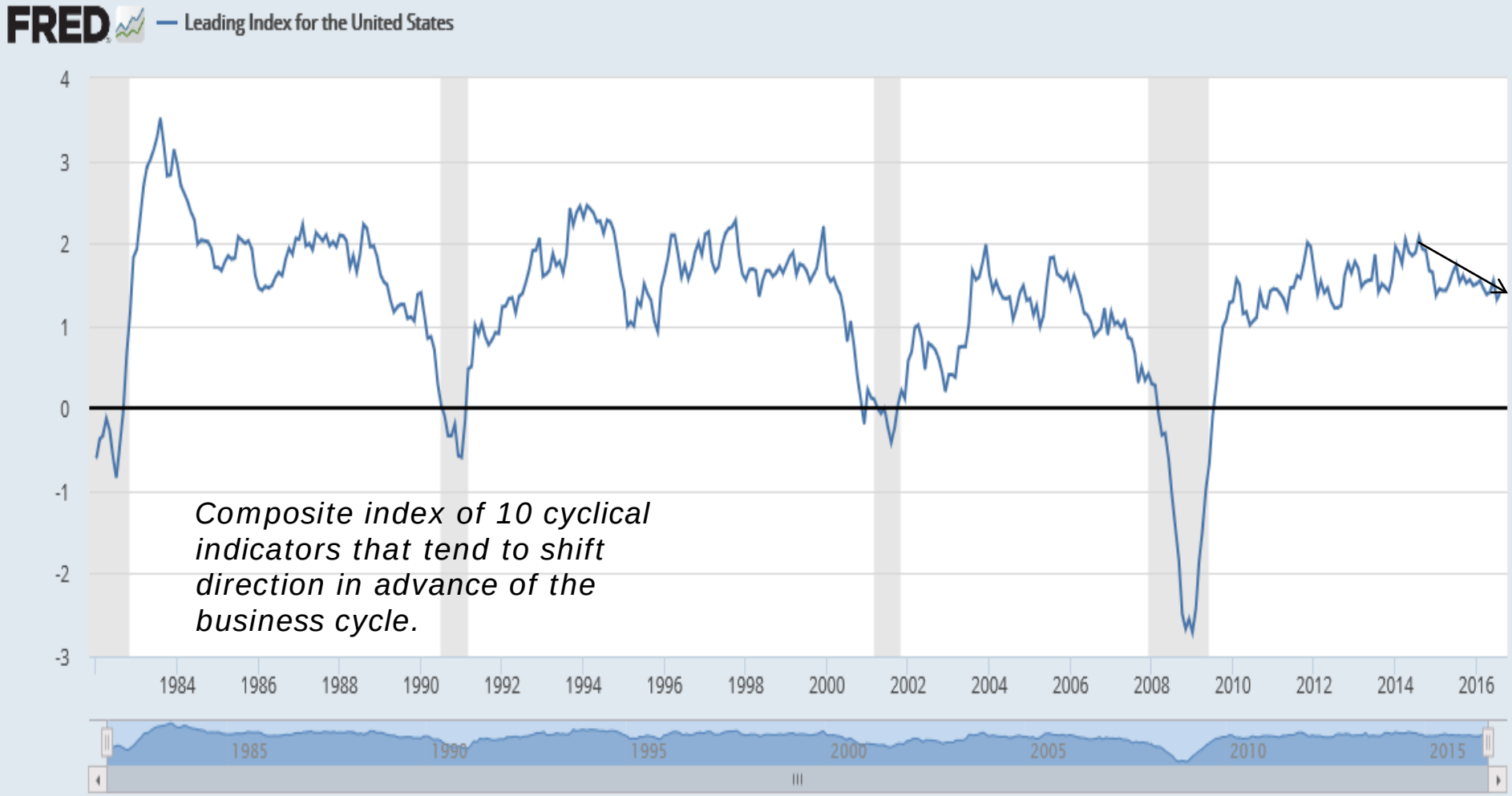
Economic Outlook (Long term)

- Longer term prognosis (FY17-18) is much more uncertain:
  - Most probable: Continue slow growth period (2.0 –2.5% GDP growth).
  - Increasing possibility: Begin a period of diminishing growth.
- Economy approaching a business cycle peak.
- Rate that the economy has been adding new jobs is diminishing.
- Approaching full employment; natural rate of unemployment.
- Fed monetary policy benchmarks: Unemployment (5.0%) and inflation (2.0%).
- Likely the Fed will increase short term interest rates in December 2016 with subsequent rate increases to follow.
- Fed commitment to quarterly rate increases could be the factor that causes a very slow economic expansion to change to a period of diminishing growth…that ultimately leads to the next recession.

Economic Outlook (Long term)

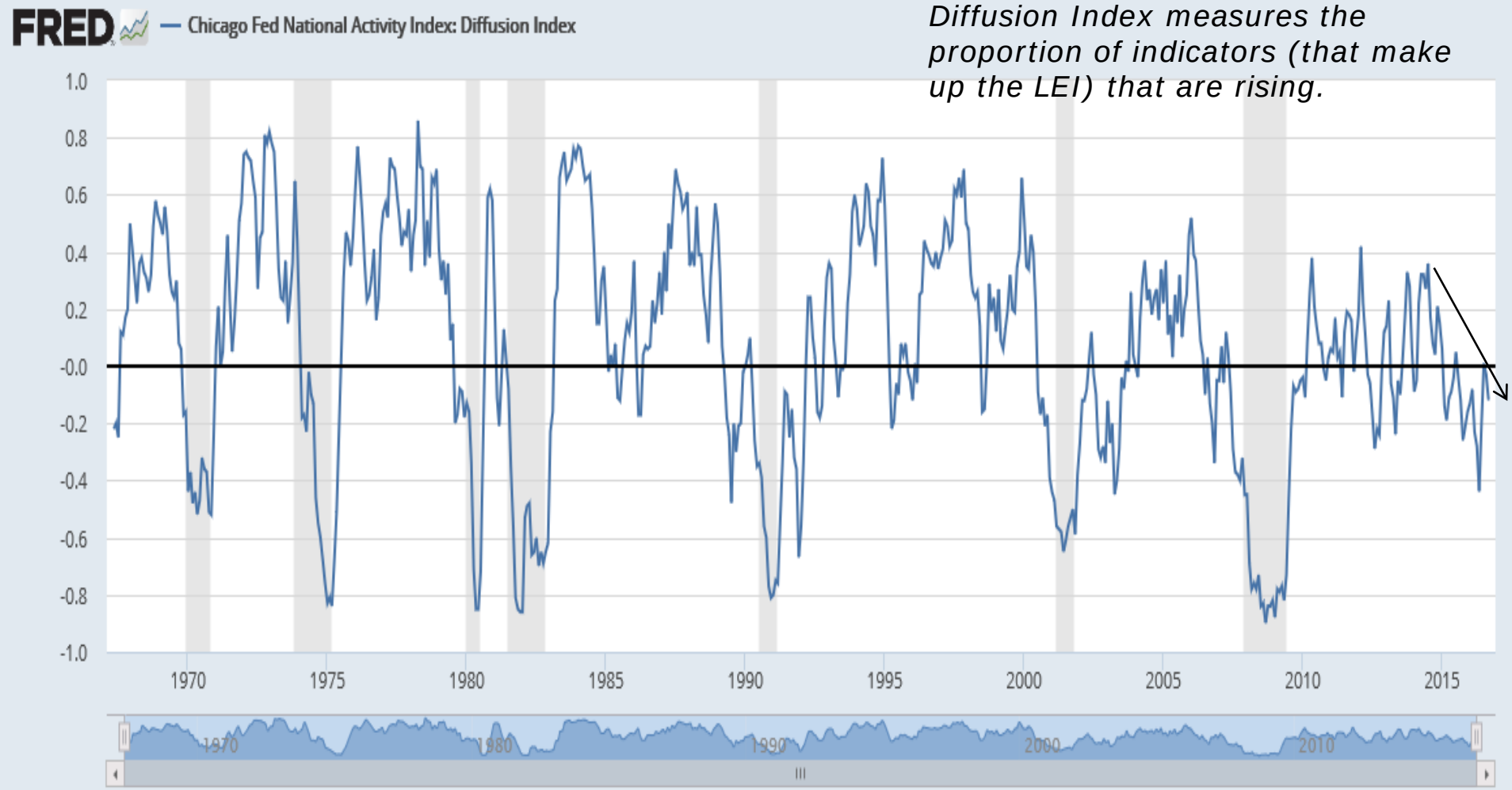
- Now 89 months into economic expansion (since June 2009).
- An additional 20 months of expansion (109 total months) would be the 2nd longest period of expansion period since WWII.
- U.S. twice as likely to enter a recession after a Presidential election as compared with all other years (4 of last 8 recessions).
- Monthly survey of economists put odds of a recession occurring within next 4 years at 60%; within the next year at over 20%.
- Besides anecdotal information, what specific indicators might be suggesting we are approaching the end of the business cycle?
  - U.S. Leading Economic Index
  - Diffusion Index
  - Yield Spread
  - TN Leading Index (as compared to the U.S. LEI)
  - U.S. Unemployment Rate vs 3-year Moving Average
  - Peak of Corporate Profits

U.S. Leading Economic Index



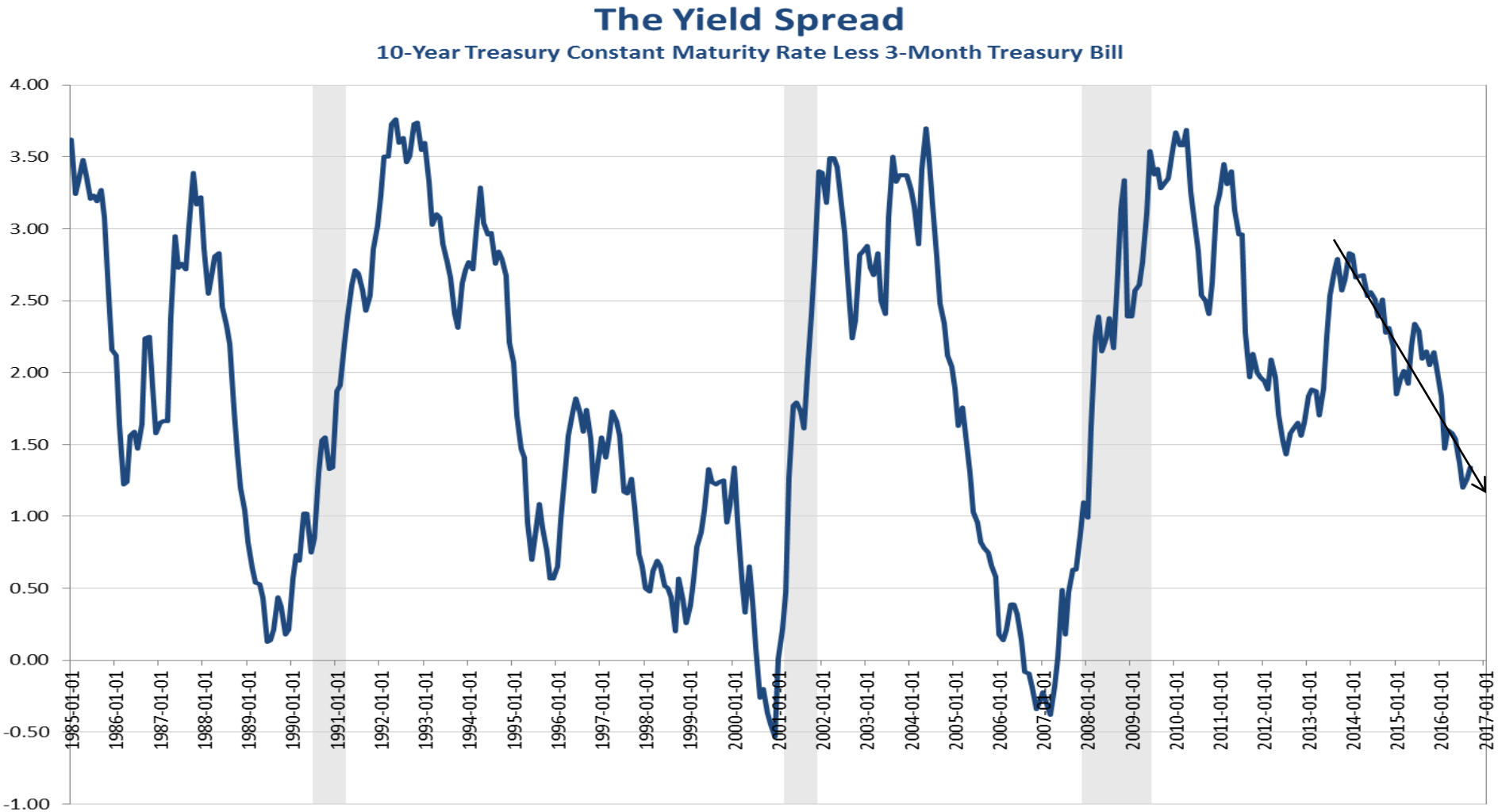
Composite index of 10 cyclical indicators that tend to shift direction in advance of the business cycle.

Diffusion Index



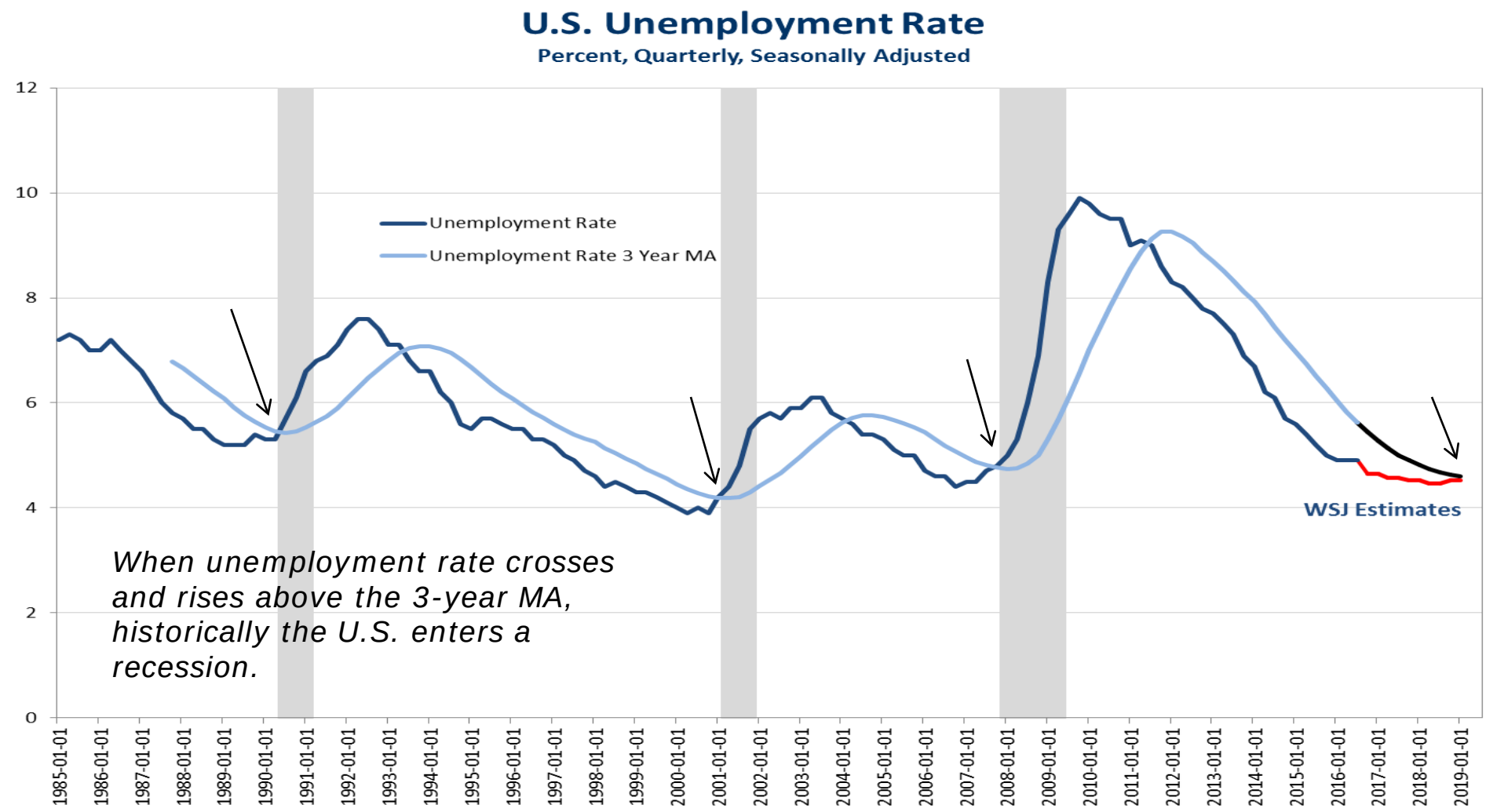
Diffusion Index measures the proportion of indicators (that make up the LEI) that are rising.

Yield Spread

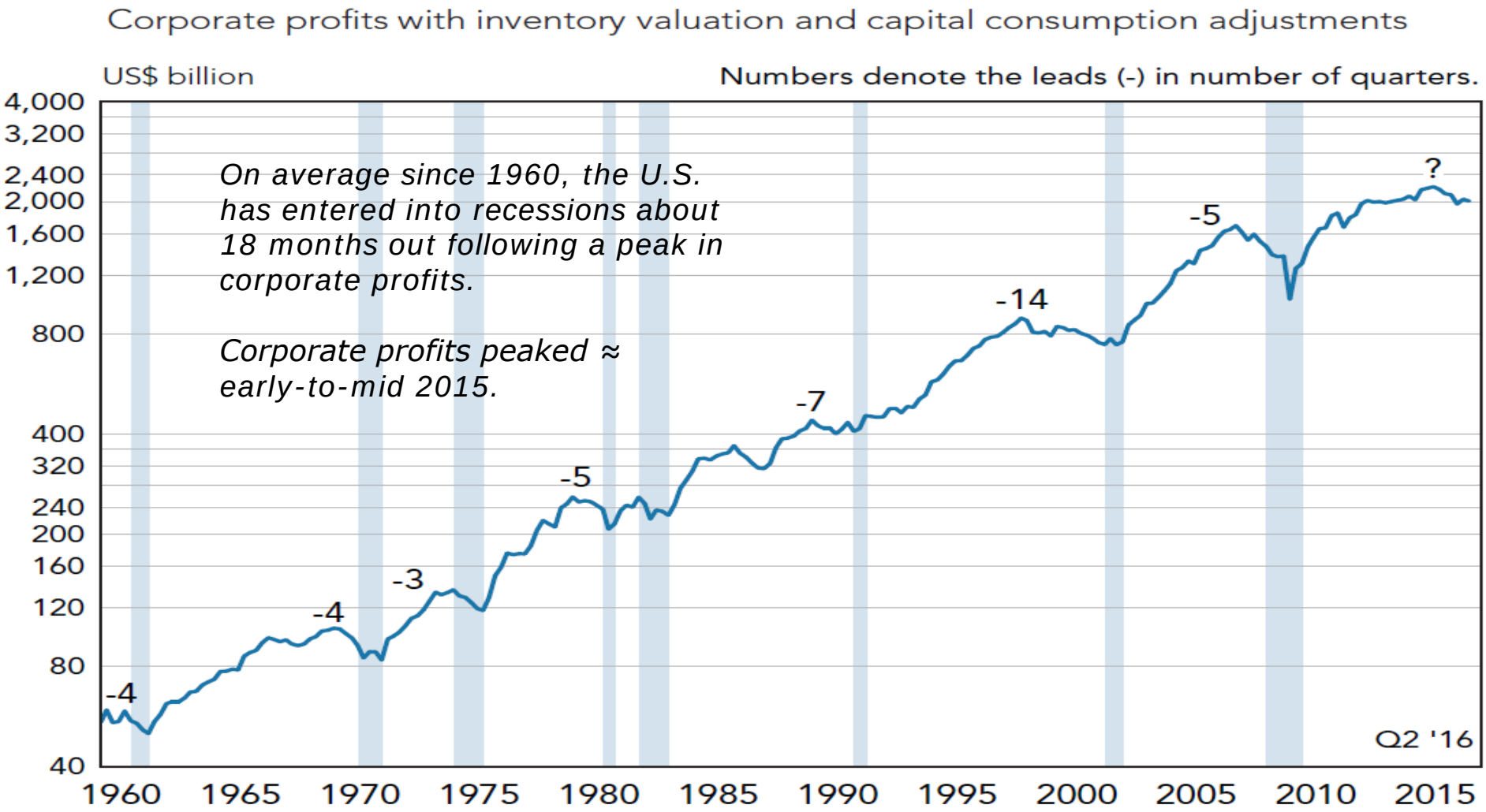


TN Leading Index (vs. U.S. Index)

Unemployment (Rate vs 3-Yr MA)



Peak of Corporate Profits



On average since 1960, the U.S. has entered into recessions about 18 months out following a peak in corporate profits.

Corporate profits peaked ≈ early-to-mid 2015.

Economic Outlook (Summary)

- Economic outlook (and revenue growth forecasts) should be tempered (slightly) based on:
  - Recent changes in leading indicators.
  - Elevated level of uncertainty that resulted from atypical Presidential election.
  - That uncertainty is over; will be replaced with new uncertainty concerning the policies of the President-elect (with a Republican-majority Congress).
  - The status of the U.S. economy within the current business cycle expansion.
  - Economic expansions do not last into perpetuity.
  - Not a matter of if, but when (next recession occurs).

Economic Outlook (Summary)

- But overall, economic fundamentals are still there for moderate tax revenue growth:
  - Increasing consumer demand.
  - Upside potential with housing.
  - Driven in part due to millennials.
  - Good employment numbers.
  - Relatively low crude (gas) prices.
  - Upward price pressures will be mild/gradual.
  - Despite marginally increasing interest rates, the cost of capital will remain relatively low for the forecasting period.

Revenue Forecasting Issues

- What will sales tax collection growth be following three years of better-than-average and accelerating growth; 3.9% in FY13-14, 5.8% in FY14-15, and 7.3% in FY15-16 respectively?
- What are F&E taxes going to do after two consecutive years of good growth; 16.5% in FY14-15, and 6.8% in FY15-16 respectively?
- Is recent growth in fuel tax collections sustainable? All fuel taxes combined grew 4.35% in FY15-16.
- What's up with the alcohol related taxes? All alcohol related taxes combined grew 10.01% in FY15-16.
- What lies ahead for Hall Income tax collections and inheritance/estate tax collections?

TN Tax Revenue Outlook

- FRC is estimating tax revenue growth, but diminished growth for each FY16-17 and FY17-18 (relative to FY15-16):
  - Accrued revenue growth was 6.20% in FY15-16.
  - FY16-17 estimate for total revenue growth is **3.26%**
    - *General Fund growth estimated to be **3.71%**.*
  - FY17-18 estimate for total revenue growth is **3.44%**
    - *General Fund growth estimated to be **3.66%**.*

Growth Forecasts: FY16-17 & FY17-18

Tax Source	FY16-17			FY17-18
	FY16-17 YTD Growth	Growth Forecast for Remainder of FY16-17	Growth Estimates for FY16-17	Growth Estimates for FY17-18
Sales Tax	3.72%	4.40%	4.23%	3.71%
F&E	14.04%	2.67%	4.90%	4.58%
Motor Fuels	0.23%	2.51%	1.94%	2.19%
Alcohol	7.77%	7.21%	7.77%	6.98%
Income	-63.68%	-16.35%	-17.97%	2.64%
All Other	1.65%	-0.87%	-0.29%	0.49%
Total	4.55%	2.79%	3.20%	3.44%

*Growth rate estimates for FY16-17 are relative to FY15-16 cash collections

Estimates for FY16-17 & FY17-18

REVENUE SOURCE	ACTUAL ACCRUED COLLECTIONS FY15-16	FRC STAFF TAX REVENUE ESTIMATES FY16-17	PERCENT INCREASE OVER FY15-16	FRC STAFF TAX REVENUE ESTIMATES FY17-18	PERCENT INCREASE OVER FY16-17
SALES & USE TAX	$8,267,224,400	$8,620,000,000	4.3%	$8,940,000,000	3.7%
GASOLINE TAX	$659,915,000	$671,000,000	1.7%	$684,400,000	2.0%
MOTOR FUEL TAX	$172,336,300	$178,000,000	3.3%	$183,300,000	3.0%
GASOLINE INSPECTION TAX	$67,380,500	$68,900,000	2.3%	$70,300,000	2.0%
MOTOR VEHICLE REG. TAX	$271,197,800	$280,000,000	3.2%	$285,500,000	2.0%
INCOME TAX	$322,356,000	$265,000,000	-17.8%	$272,000,000	2.6%
PRIVILEGE TAX - LESS EARMARKED*	$316,544,100	$347,000,000	9.6%	$357,000,000	2.9%
GROSS RECEIPTS TAX: TVA	$348,742,900	$342,200,000	-1.9%	$345,000,000	0.8%
GROSS RECEIPTS TAX: OTHER	$19,979,200	$29,000,000	45.2%	$29,000,000	0.0%
BEER TAX*	$17,378,000	$18,500,000	6.5%	$18,900,000	2.2%
ALCOHOLIC BEVERAGE TAX	$62,250,200	$69,000,000	10.8%	$74,500,000	8.0%
FRANCHISE & EXCISE TAX	$2,311,705,100	$2,400,000,000	3.8%	$2,510,000,000	4.6%
INHERITANCE TAX	$55,353,200	$22,000,000	-60.3%	$3,000,000	-86.4%
TOBACCO TAX	$261,480,900	$260,000,000	-0.6%	$256,800,000	-1.2%
MOTOR VEHICLE TITLE FEES	$22,781,500	$25,000,000	9.7%	$26,000,000	4.0%
MIXED DRINK TAX	$96,275,100	$104,500,000	8.5%	$112,000,000	7.2%
BUSINESS TAX	$154,622,300	$165,000,000	6.7%	$175,000,000	6.1%
SEVERANCE TAX	$1,400,400	$1,350,000	-3.6%	$1,400,000	3.7%
AMUSEMENT TAX	$268,500	$250,000	-6.9%	$250,000	0.0%
UNAUTHORIZED SUBSTANCE TAX	$5,900	$0	N/A	$0	N/A
TOTAL REVENUE	**$13,429,197,300**	**$13,866,700,000**	**3.26%**	**$14,344,350,000**	**3.44%**

*Privilege Tax estimates are reduced by $43.0 million for the earmarked portion of the tax.

FY16-17: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS FY16-17	GENERAL FUND FY16-17
SALES & USE TAX	$8,620,000,000	$8,144,544,000
GASOLINE TAX	$671,000,000	$10,817,000
MOTOR FUEL TAX	$178,000,000	$3,347,000
GASOLINE INSPECTION TAX	$68,900,000	$20,222,000
MOTOR VEHICLE REGISTRATION TAX	$280,000,000	$47,896,000
INCOME TAX	$265,000,000	$173,056,000
PRIVILEGE TAX	$347,000,000	$346,896,000
GROSS RECEIPTS TAX: TVA	$342,200,000	$188,933,000
GROSS RECEIPTS TAX: OTHER	$29,000,000	$24,446,000
BEER TAX	$18,500,000	$12,442,000
ALCOHOLIC BEVERAGE TAX	$69,000,000	$57,149,000
FRANCHISE & EXCISE TAX	$2,400,000,000	$2,122,900,000
INHERITANCE TAX	$22,000,000	$22,000,000
TOBACCO TAX	$260,000,000	$260,000,000
MOTOR VEHICLE TITLE FEES	$25,000,000	$22,300,000
MIXED DRINK TAX	$104,500,000	$52,194,000
BUSINESS TAX	$165,000,000	$165,000,000
SEVERANCE TAX	$1,350,000	$540,000
AMUSEMENT TAX	$250,000	$250,000
UNAUTHORIZED SUBSTANCE	$0	$0
TOTAL REVENUE	$13,866,700,000	$11,674,932,000

FRC Estimates for FY16-17 Relative to Current Budgeted Estimates

CURRENT FRC STAFF ESTIMATE FOR FY16-17	
SALES TAX	$8,620,000,000
FRANCHISE & EXCISE TAXES	$2,400,000,000
ALL FUNDS	$13,866,700,000
GENERAL FUND	$11,674,932,000
CURRENT BUDGETED ESTIMATE FOR FY16-17	
SALES TAX	$8,272,700,000
FRANCHISE & EXCISE TAXES	$2,133,400,000
ALL FUNDS	$13,177,600,000
GENERAL FUND	$11,056,900,000
EST. OVERAGE/(SHORTAGE) COMPARED TO CURRENT BUDGETED ESTIMATE FOR FY16-17:	
SALES TAX	$347,300,000
FRANCHISE & EXCISE TAXES	$266,600,000
ALL FUNDS	$689,100,000
GENERAL FUND	$618,032,000
ACT. GENERAL FUND FOR FY15-16:	$11,257,133,600
EST. GENERAL FUND INCREASE OVER FY15-16:	$417,798,400

FY17-18: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS FY17-18	GENERAL FUND FY17-18
SALES & USE TAX	$8,940,000,000	$8,446,894,000
GASOLINE TAX	$684,400,000	$11,033,000
MOTOR FUEL TAX	$183,300,000	$3,446,000
GASOLINE INSPECTION TAX	$70,300,000	$20,633,000
MOTOR VEHICLE REGISTRATION TAX	$285,500,000	$48,837,000
INCOME TAX	$272,000,000	$177,627,000
PRIVILEGE TAX	$357,000,000	$356,893,000
GROSS RECEIPTS TAX: TVA	$345,000,000	$190,479,000
GROSS RECEIPTS TAX: OTHER	$29,000,000	$24,446,000
BEER TAX	$18,900,000	$12,711,000
ALCOHOLIC BEVERAGE TAX	$74,500,000	$61,705,000
FRANCHISE & EXCISE TAX	$2,510,000,000	$2,232,900,000
INHERITANCE TAX	$3,000,000	$3,000,000
TOBACCO TAX	$256,800,000	$256,800,000
MOTOR VEHICLE TITLE FEES	$26,000,000	$23,300,000
MIXED DRINK TAX	$112,000,000	$55,940,000
BUSINESS TAX	$175,000,000	$175,000,000
SEVERANCE TAX	$1,400,000	$560,000
AMUSEMENT TAX	$250,000	$250,000
UNAUTHORIZED SUBSTANCE	$0	$0
TOTAL REVENUE	$14,344,350,000	$12,102,454,000

Tennessee Education Lottery

Estimates for Net Lottery Proceeds & After-School Funding

Prepared by:

Fiscal Review Committee Staff

November 17, 2016

Historical Results

Category	FY12-13	FY13-14	FY14-15	FY15-16
Total Net Revenue	$1,280,366,277	$1,323,572,632	$1,372,982,180	$1,515,551,310
Prize Expense	$812,547,301	$850,790,713	$881,103,549	$965,989,002
Retailer Commissions	$89,258,881	$92,492,072	$96,338,232	$106,145,236
Operating Expense	$16,916,511	$17,313,853	$18,493,366	$18,191,834
Other Expenses	$40,101,263	$39,994,473	$41,109,343	$42,762,673
Total Expenses	$958,823,956	$1,000,591,111	$1,037,044,490	$1,133,088,745
Net Lottery Proceeds	$321,542,321	$322,981,521	$335,937,690	$382,462,565
After-School Funding	$18,170,504	$14,290,845	$11,847,864	$11,586,227
Total State Proceeds	$339,712,825	$337,272,366	$347,785,554	$394,048,792

Actual Growth in FY15-16

Category	FY14-15	FY15-16	Growth
Total Net Revenue	$1,372,982,180	$1,515,551,310	10.4%
Total Expenses	$1,037,044,490	$1,133,088,745	9.3%
NET LOTTERY PROCEEDS	$335,937,690	$382,462,565	13.8%
After-School Proceeds	$11,847,864	$11,586,227	-2.2%
TOTAL STATE PROCEEDS	$347,785,554	$394,048,792	13.3%

Instant Game Growth in FY15-16

Price Point	Percent of Instant Game Sales	FY14-15 Gross Sales (Millions)	FY15-16 Gross Sales (Millions)	Percent Sales Growth	Dollar Growth (Millions)
$1	7.2%	$94.5	$93.8	-0.7%	-$0.7
$2	16.1%	$216.4	$210.5	-2.7%	-$5.9
$3	8.2%	$91.1	$106.7	17.1%	$15.6
$5	22.4%	$280.7	$291.8	4.0%	$11.1
$10	20.3%	$225.4	$265.4	17.7%	$40.0
$20	12.2%	$166.2	$159.5	-4.0%	-$6.7
$25	9.7%	$145.7	$126.5	-13.2%	-$19.2
$30	3.9%	$0.0	$50.3	N/A	$50.3
Total	100.0%	$1,220.0	$1,304.5	6.9%	$84.5

Growth in Numbers Games – FY15-16

- ***CASH 3:***
  - *FY14-15 sales: $58,877,821*
  - *FY15-16 sales: $61,561,055*
  - *FY15-16 dollar growth: + $2,683,234*
  - *FY15-16 percent growth: + 4.6%*
- ***CASH 4:***
  - *FY14-15 sales: $33,359,486*
  - *FY15-16 sales: $35,065,799*
  - *FY15-16 dollar growth: + $1,706,313*
  - *FY15-16 percent growth: + 5.1%*

Hot Lotto Growth in FY15-16

- ***FY14-15 sales: $15,349,247***
- ***FY15-16 sales: $11,292,846***
- ***FY15-16 dollar growth: -$4,056,401***
- ***FY15-16 percent growth: -26.4%***

Fiscal Year	*Average Jackpot Cycle*	*Highest Jackpot Cycle*	*Drawings with Jackpots $5,000,000 or More*	*Jackpot Winners*
FY14-15	**$5,657,788**	**$11,710,000**	**56**	**1**
FY15-16	**$2,229,524**	**$9,850,000**	**1**	**4**

Tennessee Cash Growth in FY15-16

- *FY14-15 sales: $19,594,124*
- *FY15-16 sales: $17,369,787*
- *FY15-16 dollar growth: - $2,224,337*
- *FY15-16 percent growth: - 11.4%*

Fiscal Year	Average Jackpot Cycle	Highest Jackpot Cycle	Drawings with Jackpots $1,000,000 or More	Jackpot Winners
FY14-15	$650,000	$1,690,000	16	8
FY15-16	$435,657	$950,000	0	10

Mega Millions Growth in FY15-16

- ***FY14-15 sales: $39,201,166***
- ***FY15-16 sales: $37,369,086***
- ***FY15-16 dollar growth: - $1,832,080***
- ***FY15-16 percent growth: - 4.7%***

Fiscal Year	*Average Jackpot Cycle*	*Highest Jackpot Cycle*	*Drawings with Jackpots $250.0 Million or More*	*Jackpot Winners*
FY14-15	**$93,761,905**	**$321,000,000**	**5**	**6**
FY15-16	**$101,682,692**	**$390,000,000**	**8**	**6**

Powerball Growth in FY15-16

- ***FY14-15 sales: $87,824,273***
- ***FY15-16 sales: $147,366,941***
- ***FY15-16 dollar growth: + $59,542,668***
- ***FY15-16 percent growth: + 67.8%***

Fiscal Year	*Average Jackpot Cycle*	*Highest Jackpot Cycle*	*Drawings with Jackpots $250.0 Million or More*	*Jackpot Winners*
FY14-15	**$104,878,846**	**$500,000,000**	**5**	**14**
FY15-16	**$160,232,381**	**$1,586,400,000**	**15**	**7**

All Jackpot Games in FY15-16

- *Includes Powerball, Mega Millions, Hot Lotto, and Tennessee Cash*
- *FY14-15 combined sales: $161,968,810*
- *FY15-16 combined sales: $213,398,660*
- *FY15-16 net dollar growth: + $51,429,850*
- *FY15-16 percent growth: + 31.8%*

Game	FY14-15	FY15-16	Difference	Percent Change
Powerball	$87,824,273	$147,366,941	$59,542,668	67.8%
Mega Millions	$39,201,166	$37,369,086	($1,832,080)	-4.7%
Hot Lotto	$15,349,247	$11,292,846	($4,056,401)	-26.4%
TN Cash	$19,594,124	$17,369,787	($2,224,337)	-11.4%
Total	$161,968,810	$213,398,660	$51,429,850	31.8%

Cash 4 Life

- ***New Game introduced in November 2015***
- ***Top Prizes: $1,000 a day for life;***
  $1,000 a week for life;
- ***Generated significant incremental revenue in FY15-16: + $12,444,910***
- ***Helped offset the negative growth of Mega Millions, Tennessee Cash, and Hot Lotto: - $8,112,818***
- ***Net increase of $4,332,092***

Recap for FY15-16

- ***Total net revenue: $1,515,551,310; + 10.4% growth***
- ***Net lottery proceeds: $382,462,565; + 13.8% growth***
- ***Good growth (6.9%) from instant games – 80.2% of sales***
- ***Better-than-average growth (4.8%) from Cash 3 and Cash 4 – 5.9% of sales***
- ***Extraordinary growth (31.8%) from jackpot games – 13.1% of sales***
  - ***Due exclusively to growth of sales for Powerball***
  - ***Despite significant negative growth for Mega Millions, Hot Lotto, and Tennessee Cash***
- ***Incremental revenue – Cash 4 Life – 0.8% of sales***

FY16-17: Year-to-Date

- ***Total Net Revenue: + 5.2% (as of 9/30/2016)***
  - ***Instant Games: 1.5%***
  - ***Cash 3 and Cash 4: + 2.9%***
  - ***Jackpot Games (PB, MM, HL, TC): + 24.4%***
  - ***Cash 4 Life: ≈ $3,082,200 incremental revenue***
- ***Total Expenses: + 4.7% (as of 9/30/2016)***
  - ***Prize Expense: + 4.8%***
  - ***Total Expenses / Total Net Revenue: 74.5%***
- ***Net Lottery Proceeds (NLP): + 6.7% (as of 9/30/2016)***
  - ***Net Lottery Proceeds / Total Net Revenue: 25.5%***

Assumptions for FY16-17

- *No matrix changes to any of the four jackpot games*
- *No structural changes to Cash 3 or Cash 4*
- *Launch of at least one new spotlight instant game and/or some other type game between February and May 2017.*
- *Two additional jackpot cycles above $400 million in PB*
- *Two additional jackpot cycles above $250 million in MM*
- *No significant changes to retailer base or incentives provided to retailers*
- *No legislative action impacting sales or proceeds*
- *Total Expenses = 75.0% of Total Net Revenue*
- *Net Lottery Proceeds = 25.0% of Total Net Revenue*

FY16-17 Estimates

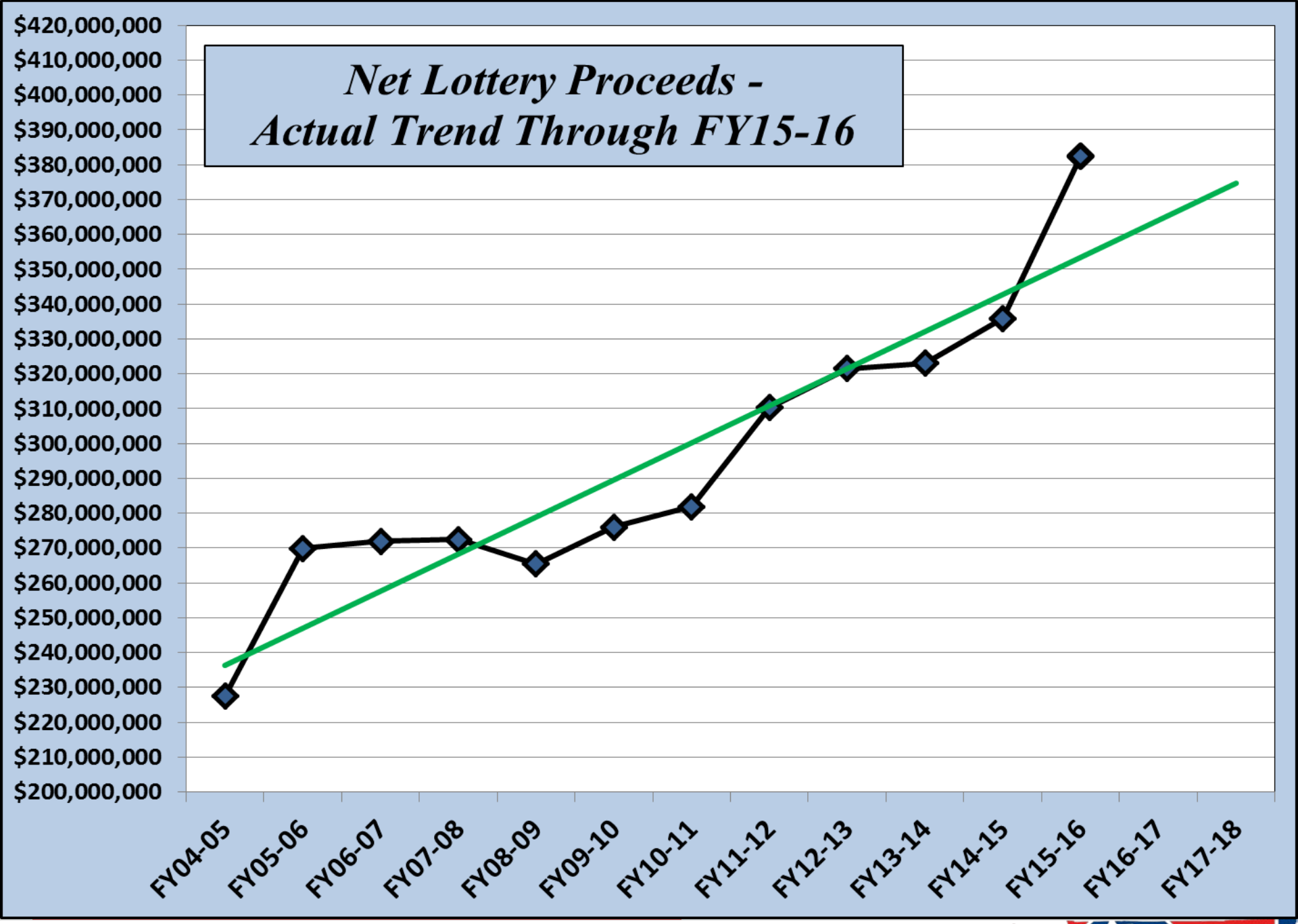
	Low	Median	Upper
Instant Games (Net)	$1,205,800,000	$1,214,900,000	$1,224,000,000
Cash 3 and Cash 4	$97,000,000	$98,000,000	$99,000,000
PB, MM, Hot Lotto, & TN Cash	$162,000,000	$169,000,000	$176,000,000
Cash 4 Life	$10,000,000	$11,000,000	$12,000,000
Misc. Revenue	$3,600,000	$3,800,000	$4,000,000
Total Net Revenue	$1,478,400,000	$1,496,700,000	$1,515,000,000
Total Expenses (75.0%)	$1,108,800,000	$1,122,500,000	$1,136,300,000
NET LOTTERY PROCEEDS (25.0%)	$369,600,000	$374,200,000	$378,700,000
After-School Funding	$11,500,000	$12,500,000	$13,500,000
TOTAL STATE PROCEEDS	$381,100,000	$386,700,000	$392,200,000

Assumptions for FY17-18

- *No matrix changes to any of the four jackpot games*
- *No structural changes to Cash 3 or Cash 4*
- *Launch of at least one new spotlight instant game and/or some other type game between February and May 2018.*
- *At least two jackpot cycles above $400 million in PB*
- *At least two jackpot cycles above $250 million in MM*
- *No significant changes to retailer base or incentives provided to retailers*
- *No legislative action impacting sales or proceeds*
- *Total Expenses = 75.2% of Total Net Revenue*
- *Net Lottery Proceeds = 24.8% of Total Net Revenue*

FY17-18 Estimates

	Low	Median	Upper
Instant Games (Net)	$1,263,400,000	$1,269,500,000	$1,275,600,000
Cash 3 and Cash 4	$98,000,000	$99,500,000	$101,000,000
PB, MM, Hot Lotto, & TN Cash	$154,500,000	$167,000,000	$179,500,000
Cash 4 Life	$9,000,000	$10,000,000	$11,000,000
Misc. Revenue	$3,600,000	$3,800,000	$4,000,000
Total Net Revenue	$1,528,500,000	$1,549,800,000	$1,571,100,000
Total Expenses (75.2%)	$1,149,400,000	$1,165,400,000	$1,181,500,000
NET LOTTERY PROCEEDS (24.8%)	$379,100,000	$384,400,000	$389,600,000
After-School Funding	$12,000,000	$13,000,000	$14,000,000
TOTAL STATE PROCEEDS	$391,100,000	$397,400,000	$403,600,000


Net Lottery Proceeds -
Actual Trend Through FY15-16
$420,000,000
$410,000,000
$400,000,000
$390,000,000
$380,000,000
$370,000,000
$360,000,000
$350,000,000
$340,000,000
$330,000,000
$320,000,000
$310,000,000
$300,000,000
$290,000,000
$280,000,000
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$260,000,000
$250,000,000
$240,000,000
$230,000,000
$220,000,000
$210,000,000
$200,000,000
FY04-05
FY05-06
FY06-07
FY07-08
FY08-09
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FY10-11
FY11-12
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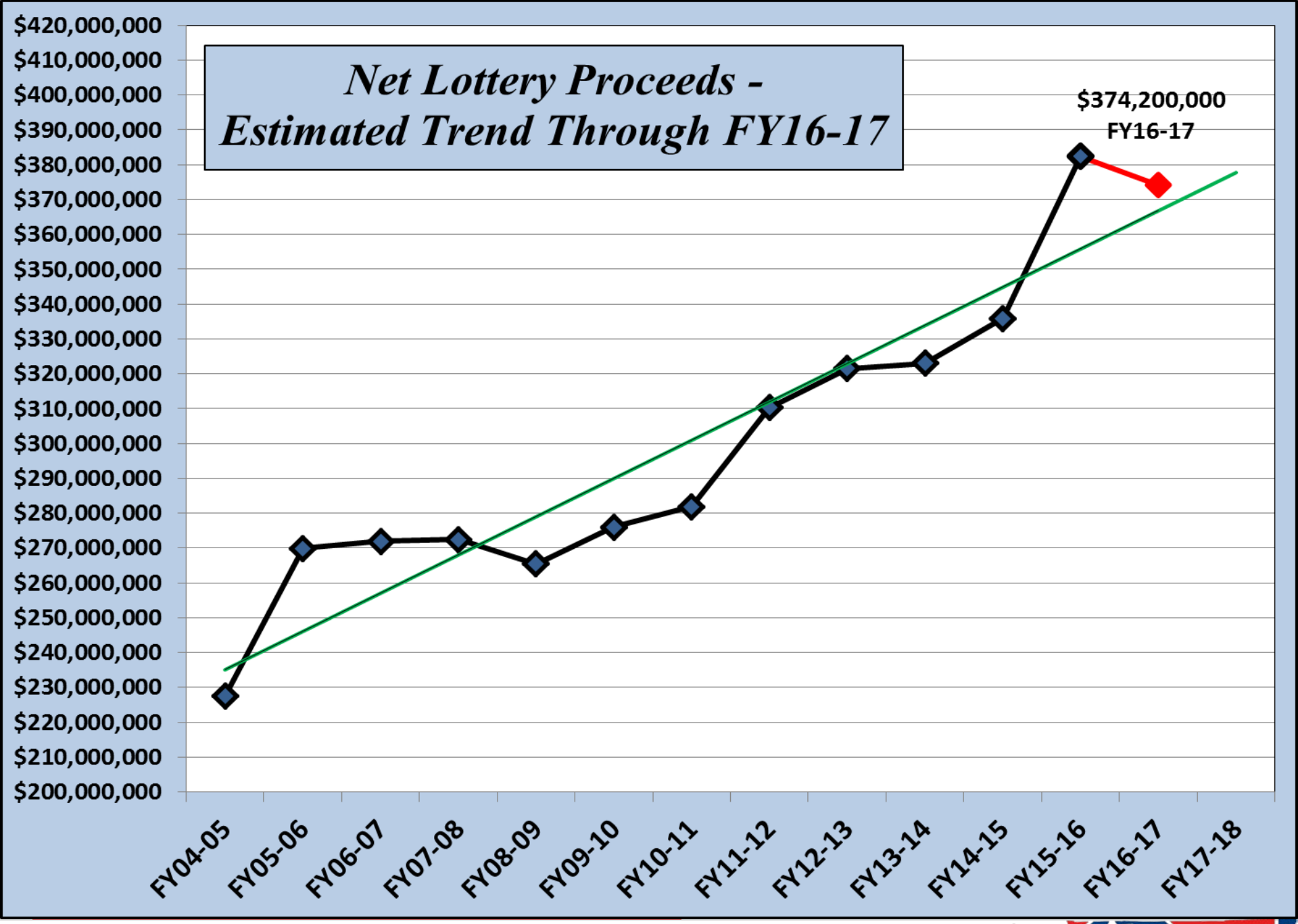
FY13-14
FY14-15
FY15-16
FY16-17
FY17-18


Net Lottery Proceeds -
Estimated Trend Through FY16-17
$374,200,000
FY16-17
$420,000,000
$410,000,000
$400,000,000
$390,000,000
$380,000,000
$370,000,000
$360,000,000
$350,000,000
$340,000,000
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$240,000,000
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$220,000,000
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FY04-05
FY05-06
FY06-07
FY07-08
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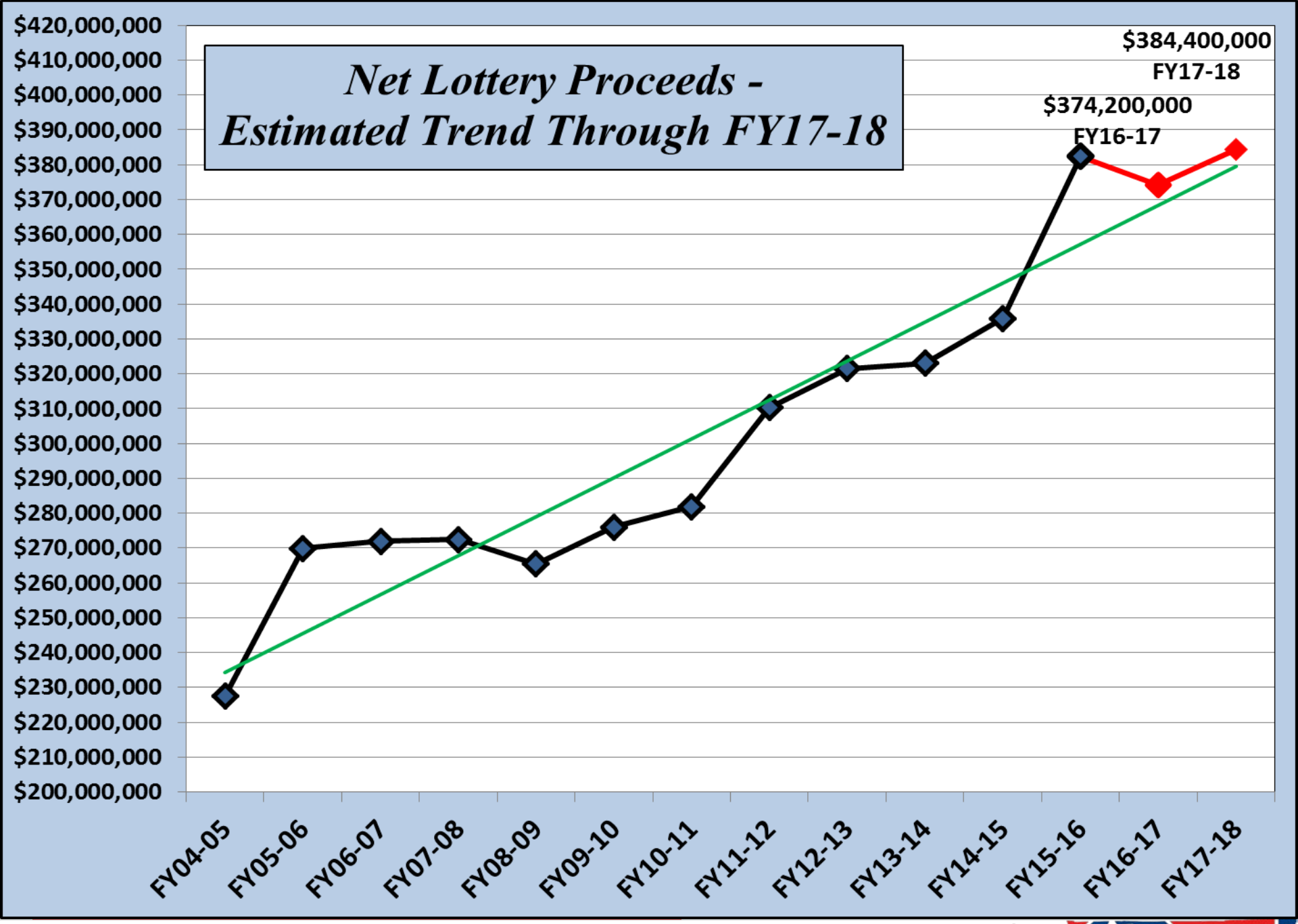
FY14-15
FY15-16
FY16-17
FY17-18


Net Lottery Proceeds -
Estimated Trend Through FY17-18
$384,400,000
FY17-18
$374,200,000
FY16-17
$420,000,000
$410,000,000
$400,000,000
$390,000,000
$380,000,000
$370,000,000
$360,000,000
$350,000,000
$340,000,000
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FY04-05
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FY09-10
FY10-11
FY11-12
FY12-13
FY13-14
FY14-15
FY15-16
FY16-17
FY17-18

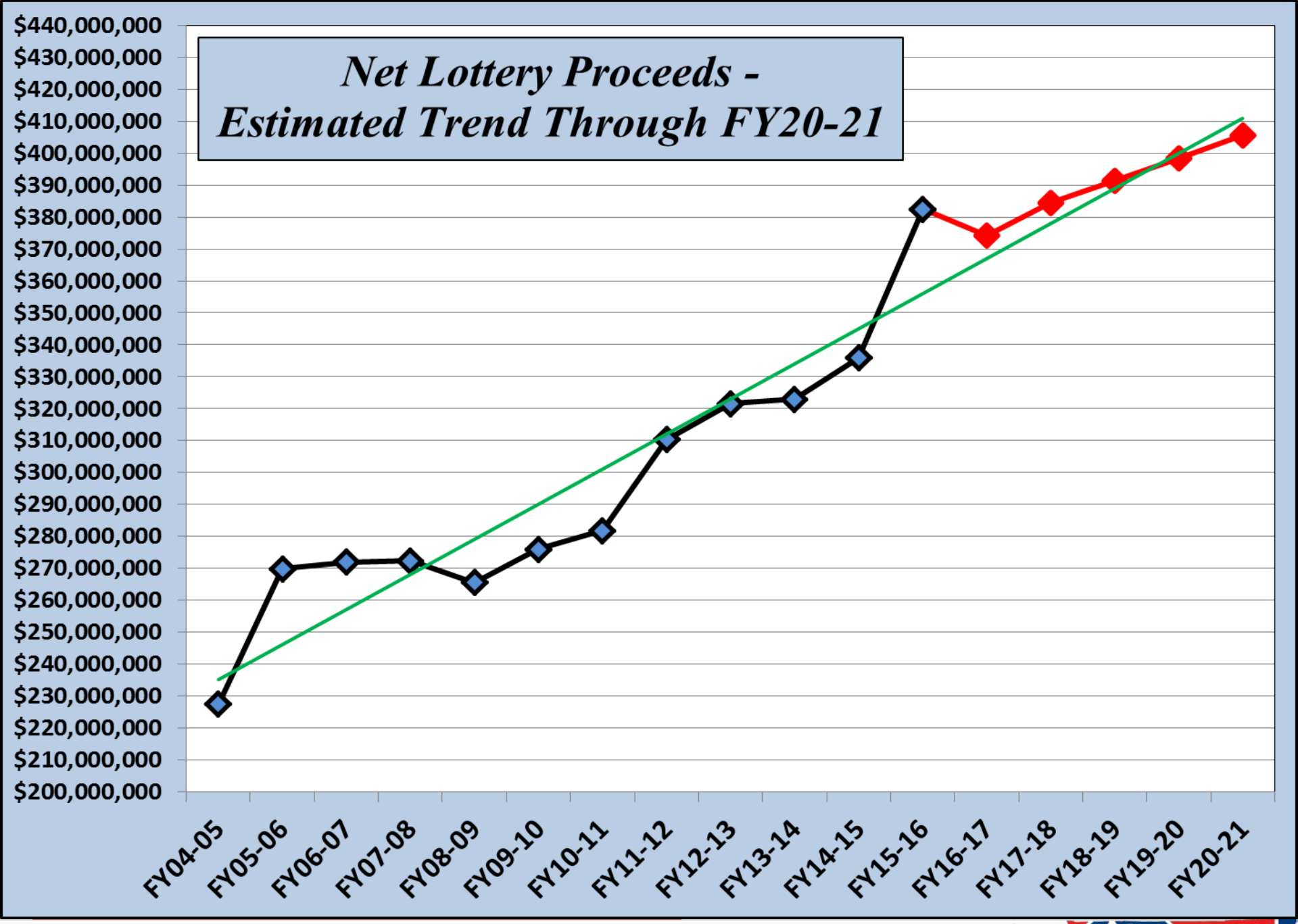
Subsequent Years

- **Growth beyond FY17-18 is difficult to forecast due to a number of unknown factors such as:**
  - ***Changes to payout ratios***
  - ***Matrix changes to jackpot based games***
  - ***Structure changes to pari-mutuel and online games***
  - ***Legislative action***
  - ***Varying jackpot cycles***
  - ***New and discontinued games***
  - ***Changes to retailer base***
  - ***Changes in advertising***
  - ***Changes in economy***

FY18-19, FY19-20, & FY20-21

- ***Over the last five years, the TELC's average growth rate for lottery proceeds has been 3.2% per year.***
- ***The industry average growth rate for lottery proceeds has been 1.1% per year.***
- ***FRC has assumed: 3.5% annual revenue growth and 1.8% annual proceeds growth.***

	FY18-19	FY19-20	FY20-21
Total Net Revenue	$1,604,043,000	$1,660,185,000	$1,718,291,000
Total Expenses	$1,212,724,000	$1,261,822,000	$1,312,757,000
Net Lottery Proceeds	$391,319,000	$398,363,000	$405,534,000
After-School Funding	$13,000,000	$13,500,000	$14,000,000
Total State Proceeds	$404,319,000	$411,863,000	$419,534,000


Net Lottery Proceeds -
Estimated Trend Through FY20-21
$440,000,000
$430,000,000
$420,000,000
$410,000,000
$400,000,000
$390,000,000
$380,000,000
$370,000,000
$360,000,000
$350,000,000
$340,000,000
$330,000,000
$320,000,000
$310,000,000
$300,000,000
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$280,000,000
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FY04-05
FY05-06
FY06-07
FY07-08
FY08-09
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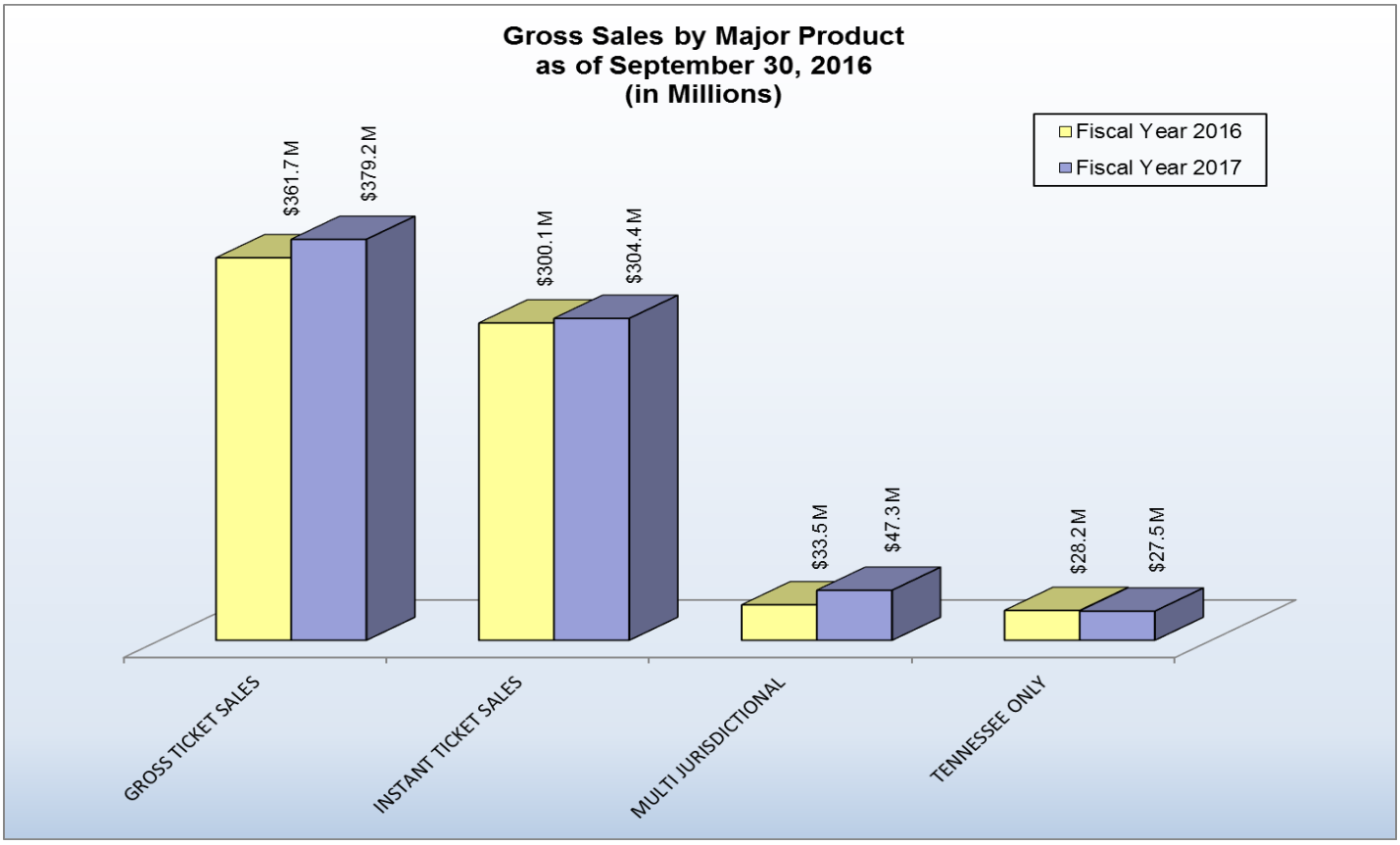
FY10-11
FY11-12
FY12-13
FY13-14
FY14-15
FY15-16
FY16-17
FY17-18
FY18-19
FY19-20
FY20-21

TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
November 17, 2016

ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS FOR FISCAL YEARS ENDING JUNE 30, 2017, 2018, 2019, 2020 AND 2021

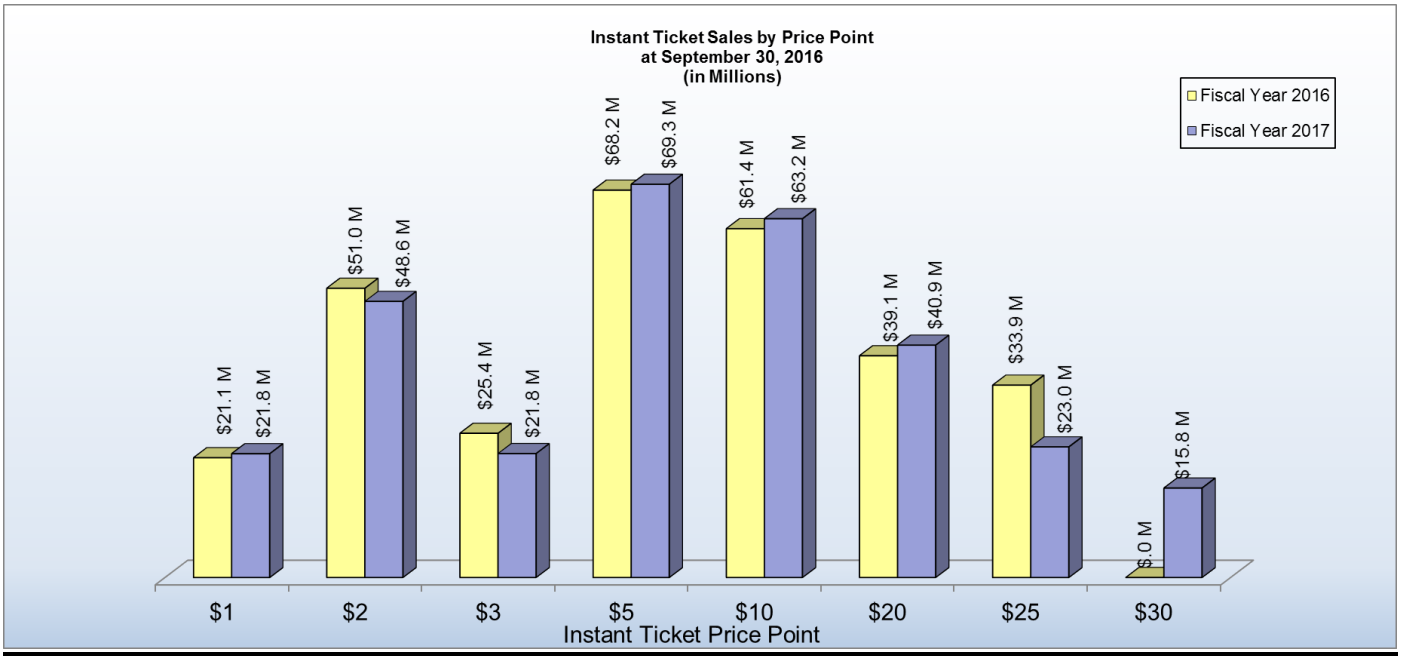
TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	As of 9/30/2016 (in millions)	As of 9/30/2015 (in millions)
Gross Sales	$379	$361
Weekly Average Sales	$28.9	$27.5
BY MAJOR PRODUCT:		
INSTANT GAMES	$304	$300
MULTIJURISDICTIONAL DRAW GAMES		
Powerball	28	22
Mega Millions	13	8
Hot Lotto	3	3
Cash 4 Life	3	-
	$47	$33
TENNESSEE ONLY DRAW GAMES		
Cash 3	15	15
Cash 4	9	8
Tennessee Cash	4	5
	$28	$28



TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
INSTANT GAMES	$ 304.4	$1,305 - $1,331



- *Instant tickets* are 80.3% of our product mix at September 30, 2016.

- *Instant ticket sales* were $304.4 million or $23.2 million per week thru September 30, 2016 compared to $300 million or $22.8 million per week the prior year, representing a 1.5% increase in instant ticket sales year over year.

- The current percentage of sales of TEL's *Instant ticket* products are primarily related to player preferences. In February 2016, TEL launched a $30 price point ticket, Ultimate Millions which continues to be a favorite of players and driving first quarter sales. We have seen a slight increase in the $5 and $10 price points related to increased sales of the Jumbo Bucks games at these price points.

- Fiscal year 2017 *Instant tickets* are projected at $1.305 billion to $1.331 billion.

- TEL anticipates launching approximately 51 games in fiscal year 2017. The launch schedule will include similar themed games and families of games to maximize marketing and promotion efforts, including up to four special prints that will enhance visibility and playability options for these games.

- *Instant ticket* prize expense is projected at 67.4% to 67.8% for fiscal year 2017.

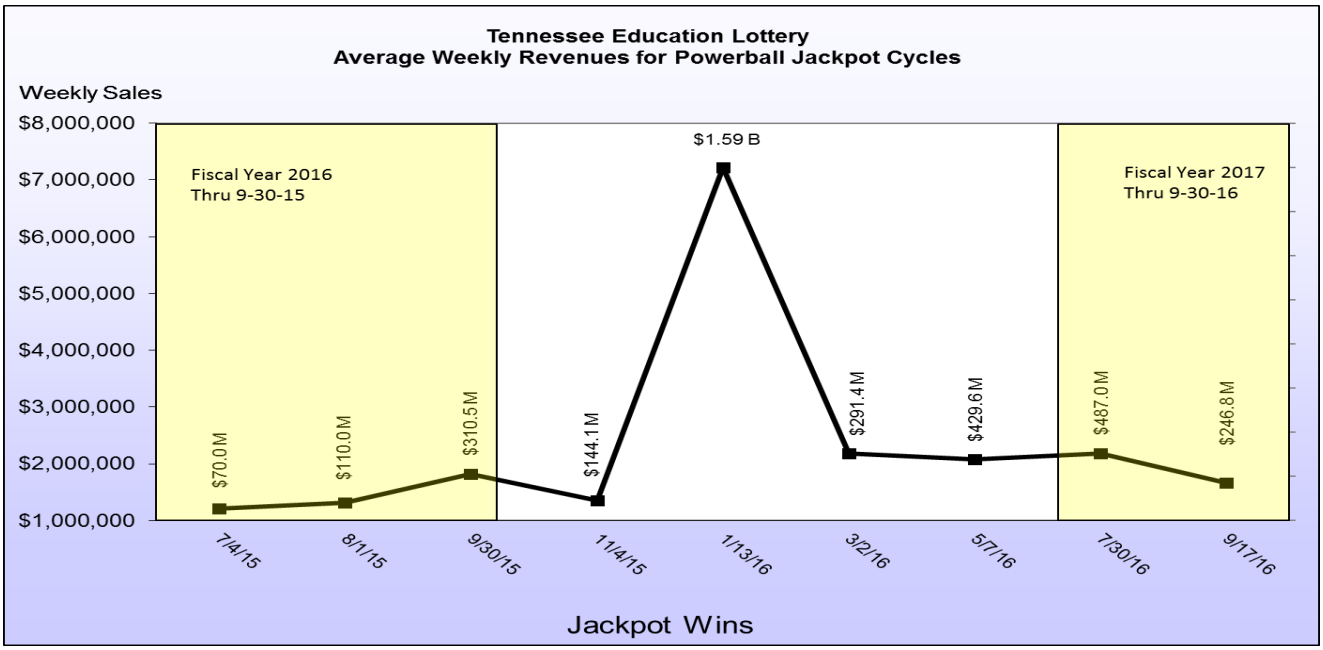
MULTI-JURISDICTIONAL GAMES

Multi-jurisdictional games, *Powerball*, *Mega Millions*, *Hot Lotto* and *Cash 4 Life* were $47.2 million at September 30, 2016 compared to $33.5 million in the prior year.

Multi-jurisdictional sales, with the exception of Cash 4 Life, are directly impacted by the size of the games' jackpots.

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
POWERBALL	$28.3	$95 - $108

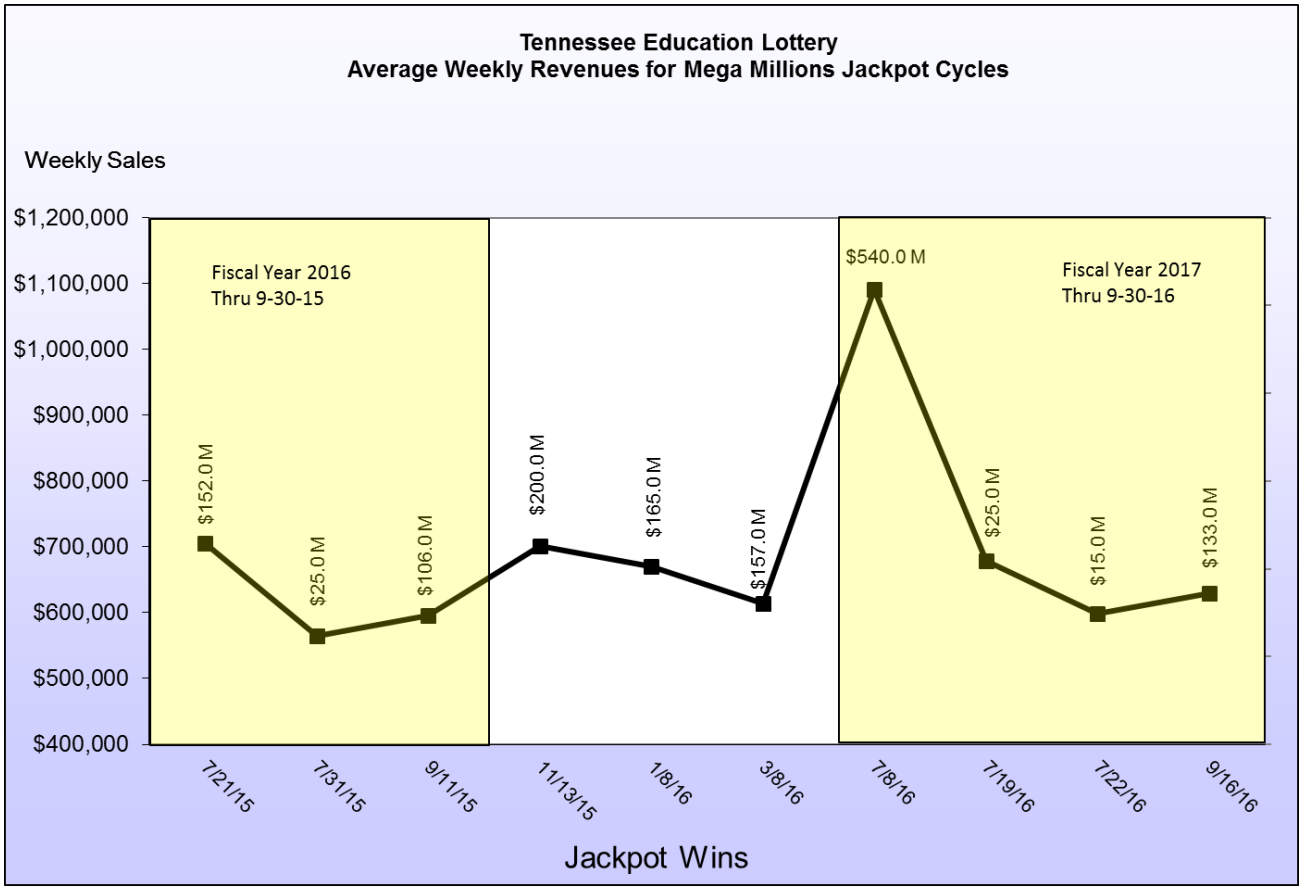
- *Powerball* is currently sold in 44 states, plus the District of Columbia, Puerto Rico and U.S. Virgin Islands.
- In October 2015, a game matrix change was implemented with the expectations of creating larger jackpot cycles.
- TEL's *Powerball* sales were $28.3 million compared to the prior year's sales of $21.9 million for the first quarter. The driver of the increased *Powerball* sales is directly related to a $487 million dollar jackpot won on July 31, 2016.
- Our fiscal year 2017 sales range includes 2 additional jackpot cycles reaching the $500+ million level.



TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
MEGA MILLIONS	$13.2	$37 - $40

- *Mega Millions* is currently sold in 44 states, plus the District of Columbia and U.S. Virgin Islands.
- *Mega Millions* sales are up 59% at September 30, 2016. On July 8, 2016, *Mega Millions* experienced a jackpot cycle reaching $540 million. This jackpot cycle drove the increased sales in the first quarter.
- *Mega Millions* weekly sales are projected at $640 thousand for the full fiscal year 2017 consistent with prior year sales trends.
- TEL projects the *Mega Millions* product to generate one or two jackpots of at least $250 million to help reach the $37 to $40 million fiscal year 2017 sales range.



TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
HOT LOTTO	$2.6	$10 - $11.5

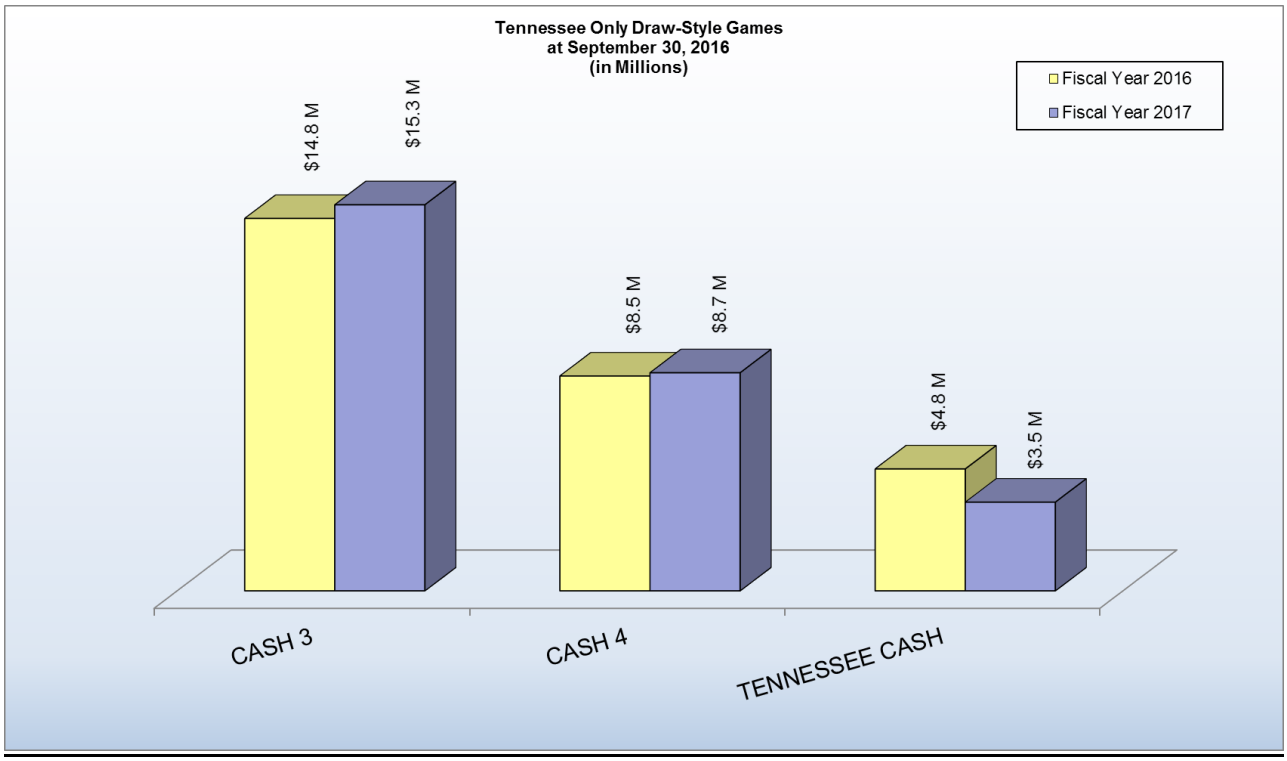
- *Hot Lotto* is currently sold in 15 jurisdictions.
- *Hot Lotto,* features an all cash (not annuitized) jackpot starting at $1 million, with expected jackpot cycles between $5 and $6 Million.
- TEL expects normal jackpot trending and a consistent revenue stream between $250 to $290 thousand weekly for the rest of fiscal year 2017.

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
CASH 4 LIFE	$3.0	$11.9 - $12.9

- *Cash 4 Life* is currently sold in 8 jurisdictions.
- The game launched November 1, 2015 in Tennessee, at a $2 price point.
- The game provides the only drawing-style game with two opportunities for a lifetime prize:
    - Top Prize is $1,000 dollars a day for life!
    - Second Prize is $1,000 dollars a week for life!
- The fiscal year 2017 projected sales range is between $12 - $13 million.

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
TENNESSEE ONLY DRAWING-STYLE GAMES	$27.5	$113 -$118



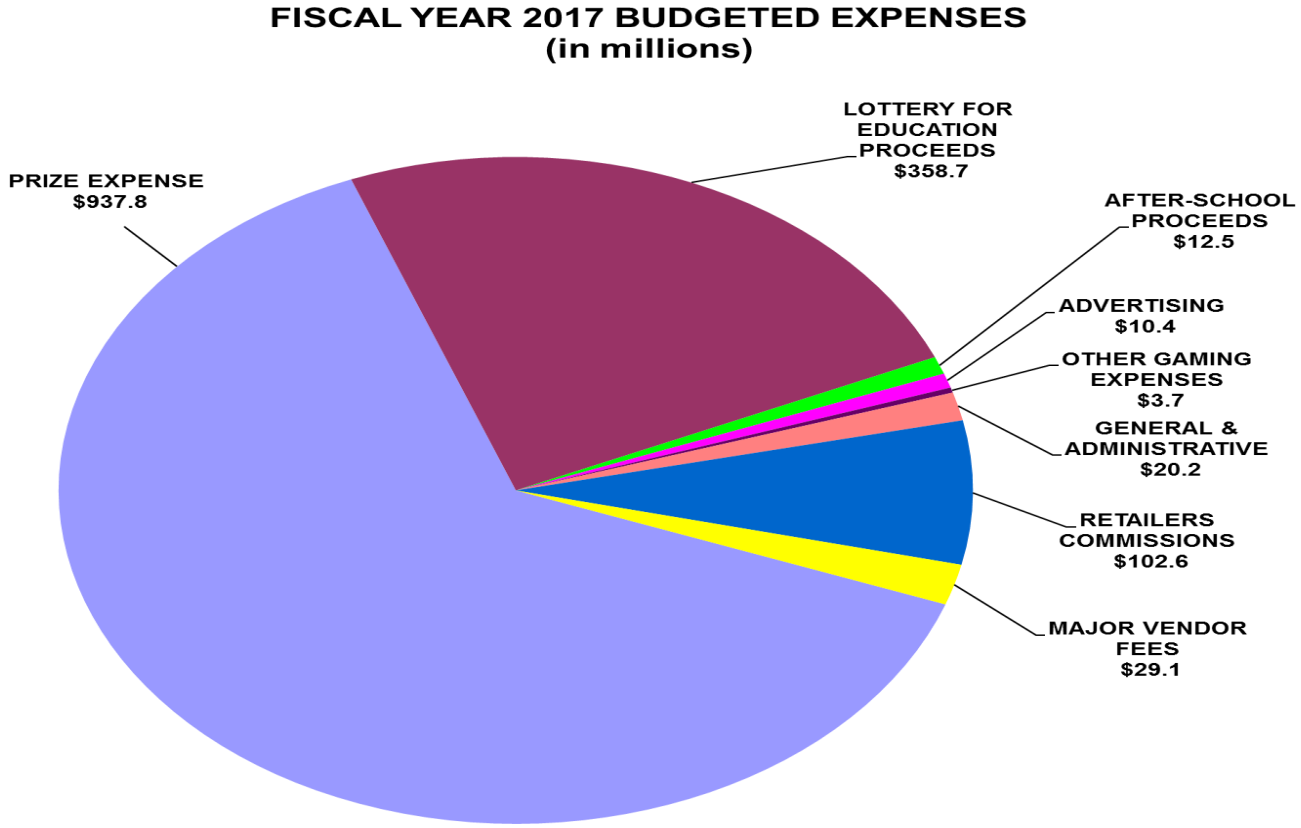
At September 30, 2016, sales for this product category were $27.5 million compared to the prior period's $28.1 million, down primarily due to the lack of jackpots related to Tennessee Cash.

Cash 3 and Cash 4

- *Cash 3* and *Cash 4* games are drawn three (3) times daily, six (6) days a week, and once on Sunday.
- In the first quarter of fiscal year 2017, TEL has seen a net increase of 2.9% for the *Cash 3* and *Cash 4* products.
- TEL is projecting sales in the range of $98 and $101 million for the full fiscal year.

Tennessee Cash

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- Sales are driven primarily by the cash jackpots, with an average jackpot cycle of $600 to $700 thousand.
- TEL projects sales in fiscal year 2017 to be between $15 and $17 million.



Direct Gaming-Related Expenses

- Aggregate Prize Expense for all Games is projected at **59.8%** of Total Revenues.
- Aggregate Prize Expense for Instant Games is projected at **67.5%** of Total Revenues.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues.

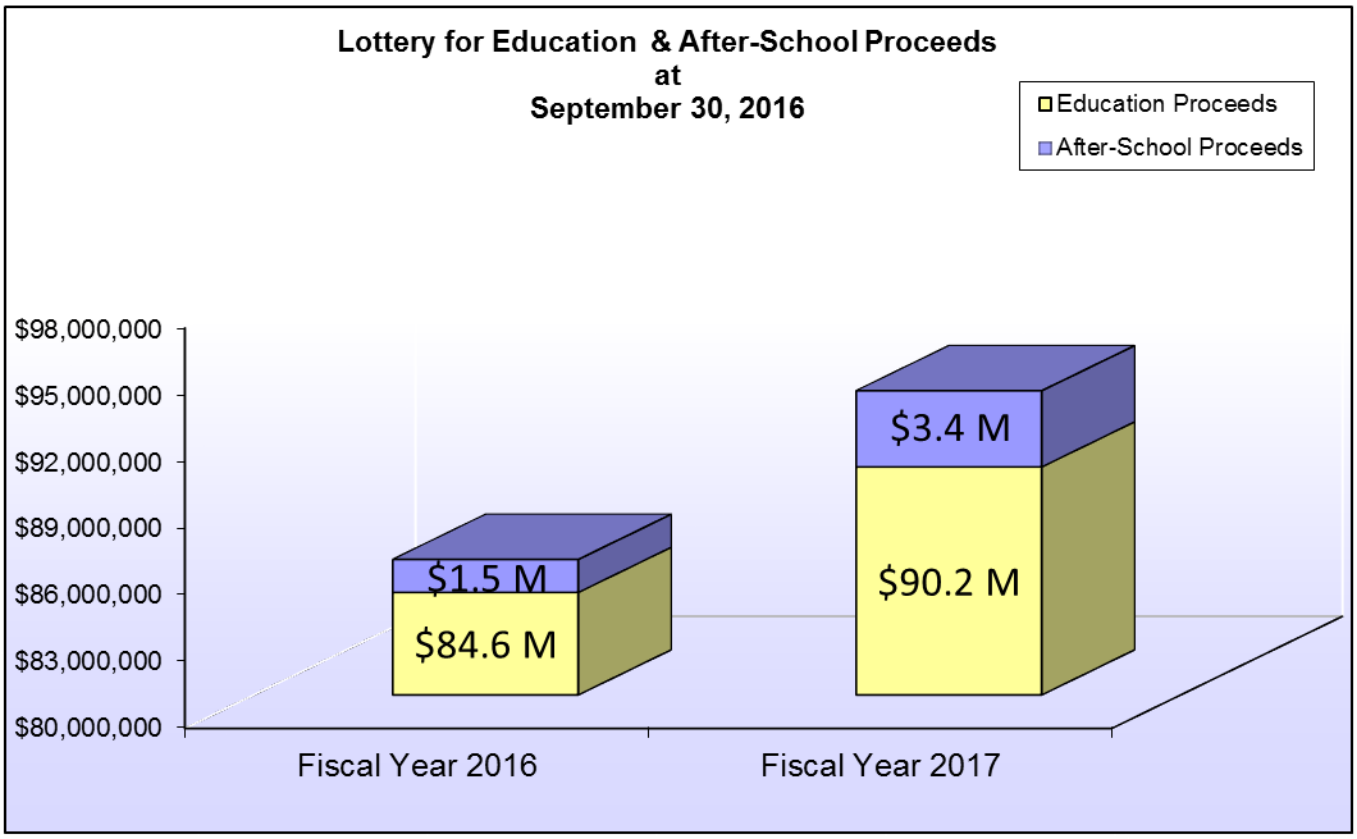
- Retailer sales commissions are **6.5%** of Gross Sales, with additional commissions for selling winning drawing-style tickets of $1 million or more and cashing tickets for *Cash 3* and *Cash 4.*

- Major gaming vendors' fees are a percentage of sales per the terms of each contract. In fiscal year 2015, TEL negotiated lower fees of 1.199% for IGT and .8998% for Sci Games as a result of a Request for Proposal for draw style games and related services and instant tickets and related services, respectively.

Non-Direct Expenses

- Non-direct expenses are budgeted at **$34.3** million or **2.2%** of Gross Sales.
  - Advertising expenses are budgeted at **$ 10.4** million.
  - Other Gaming expenses are budgeted at **$ 3.7** million.
  - General and Administrative expenses are budgeted at **$ 20.2** million.

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS



Lottery for Education Proceeds

- $90.2 million as of 9/30/2016
- $84.6 million as of 9/30/2015

Projected Fiscal Year 2017

$356 million - $366 million

After-School Program Proceeds

- $3.4 million as of 9/30/2016
- $1.4 million as of 9/30/2015

Projected Fiscal Year 2017

$12- 13 million

- Represents actual/realized unclaimed monies

- Significantly impacted by:
    1) timing of instant games' closings
    2) large drawing-style game prizes not claimed

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	FY 17 Actuals at 09/30/16	FY 17 Low Projections	FY 17 High Projections	FY 17 Approved Budget	FY 2016 Actuals
Instant Ticket Sales	$ 304,435,000	$ 1,305,000,000	$ 1,330,500,000	$ 1,295,000,000	$ 1,304,479,000
Tennessee Only	27,520,000	112,942,000	117,995,000	113,600,000	113,997,000
Multi Jurisdictional	47,260,000	153,945,000	172,425,000	164,375,000	208,474,000
GROSS TICKET SALES	$ 379,215,000	$ 1,571,887,000	$ 1,620,920,000	$ 1,572,975,000	$ 1,626,950,000
Less: Tickets Provided as Prizes	$ (26,699,000)	$ (114,923,000)	$ (117,325,000)	$ (114,038,000)	$ (115,092,000)
Net Ticket Sales	$ 352,516,000	$ 1,456,964,000	$ 1,503,595,000	$ 1,458,937,000	$ 1,511,858,000
Other Revenue	989,000	3,587,000	3,587,000	3,587,000	3,693,000
TOTAL LOTTERY PROCEEDS	$ 353,505,000	$ 1,460,551,000	$ 1,507,182,000	$ 1,462,524,000	$ 1,515,551,000
DIRECT EXPENSES					
Prize Expense	224,972,000	938,741,000	970,753,000	937,723,000	965,989,000
Retailer Commissions	24,744,000	102,560,000	105,755,000	102,617,000	106,145,000
Vendor Fees	6,940,000	29,094,000	30,190,000	29,097,000	29,812,000
Direct Expense	$ 256,656,000	$ 1,070,395,000	$ 1,106,698,000	$ 1,069,437,000	$ 1,101,946,000
NON-DIRECT EXPENSE					
Advertising	1,854,000	10,439,000	10,439,000	10,439,000	9,317,000
Other Gaming Expenses	900,000	3,709,000	3,709,000	3,709,000	3,634,000
Operating Expenses	3,845,000	20,159,000	20,159,000	20,159,000	18,192,000
Non-Direct Expenses	$ 6,599,000	$ 34,307,000	$ 34,307,000	$ 34,307,000	$ 31,143,000
TOTAL EXPENSES	$ 263,255,000	$ 1,104,702,000	$ 1,141,005,000	$ 1,103,744,000	$ 1,133,089,000
LOTTERY FOR EDUCATION PROCEEDS	$ 90,250,000	$ 355,849,000	$ 366,177,000	$ 358,780,000	$ 382,462,000
AFTER SCHOOL PROGRAMS	$ 3,422,000	$ 12,000,000	$ 13,000,000	$ 12,500,000	$ 11,587,000

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

FISCAL YEARS ENDING JUNE 30, 2017, 2018, 2019 and 2020

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Total Lottery Revenues	$1,609 - $1,671 Million	$1,640 - $1,707 Million	$1,671 - $1,738 Million	$1,702 - $1,769 Million
Lottery for Education Proceeds	$362-$376 Million	$369-$384 Million	$376-$391 Million	$383-$398 Million
After-School Programs	$14 - $15 Million	$15 - $16 Million	$15 - $16 Million	$15 - $16 Million

Lottery for Education Proceeds

Over the last five (5) fiscal years, TEL's average annual Lottery for Education Proceeds growth was 3.2 % compared to the lottery industry's beneficiary funding growth of 1.1%, adjusted for fiscal year anomalies.

We currently project Lottery for Education Proceeds growth in Fiscal Years 2018, 2019, 2020 and 2021 to average between 2% and 2.5% annually.

After-School Programs Proceeds

After-School Programs Proceeds are projected based on the five-year historical unclaimed prize experience of slightly less than 1.6% of prize expense, excluding the highest and lowest growth years to adjust for anomalies.

STATE OF TENNESSEE
TENNESSEE STUDENT ASSISTANCE CORPORATION
SUITE 1510, PARKWAY TOWERS
404 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-0820
(615)741-1346 • 1-800-342-1663 • FAX (615)741-6101
www.TN.gov/collegepays

November 17, 2016

MEMORANDUM

TO: State Funding Board

FROM: Tim Phelps, Tennessee Student Assistance Corporation

SUBJECT: Tennessee Education Lottery Scholarship Program Projections

Pursuant to T.C.A 4-51-111(c)(2)(A)(ii), the Tennessee Higher Education Commission (THEC) and Tennessee Student Assistance Corporation (TSAC) have collaborated with the University of Tennessee Center for Business and Economic Research (CBER) to project expenditures in lottery scholarship and grant programs through the 2020-21 academic year.

The figures below incorporate data for all lottery-funded programs, including the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Nontraditional Student Grant, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, TCAT Reconnect, and the Math & Science Teacher Loan Forgiveness Program.

Fiscal Year	TELS Expenditures Low	TELS Expenditures Baseline	TELS Expenditures High	Recipients
2015-16 actual	N/A	$308.9M	N/A	110,700
2016-17 estimated*	$302.8M	$309.0M	$318.3M	110,800
2017-18 estimated	$305.9M	$312.1M	$321.5M	111,900
2018-19 estimated	$308.9M	$315.2M	$324.7M	113,000
2019-20 estimated	$312.0M	$318.4M	$327.9M	114,100
2020-21 estimated	$315.2M	$321.6M	$331.2M	115,300
2021-22 estimated	$318.3M	$324.8M	$334.5M	116,400

**Does not include supplemental funding of $6.8M for TSAA and administrative costs of $3.8M. Does not include Tennessee Promise estimated expenditures of $26.5M.*

These projections are based on the size of the annual high school graduating class, the scholarship take-up rate of eligible students, and the renewal rate of recipients.

Please let us know if you have questions or need anything further.

STATE OF TENNESSEE
DEPARTMENT OF EDUCATION
NINTH FLOOR, ANDREW JOHNSON TOWER
710 JAMES ROBERTSON PARKWAY
NASHVILLE, TN 37243-0375

BILL HASLAM
GOVERNOR

CANDICE MCQUEEN
COMMISSIONER

TO: Members of the Tennessee State Funding Board

FROM: Dr. Candice McQueen CM

DATE: November 17, 2016

SUBJECT: Request for $23,000 from Net Lottery Proceeds for Lottery Scholarship Day for FY 2017-2018

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution", the Department of Education requests the allotment of $23,000 from net lottery proceeds in FY 2017-2018 for Lottery Scholarship Day.

These funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes.

Your consideration and approval of this request is appreciated.

cc: David Thurman

REPORT ON THE
STATE POOLED INVESTMENT FUND
For The Fiscal Year Ended June 30, 2016

PREPARED FOR THE
STATE FUNDING BOARD

November 17, 2016

PREPARED BY
TREASURY DEPARTMENT
CASH MANAGEMENT DIVISION

Tim McClure, CTP

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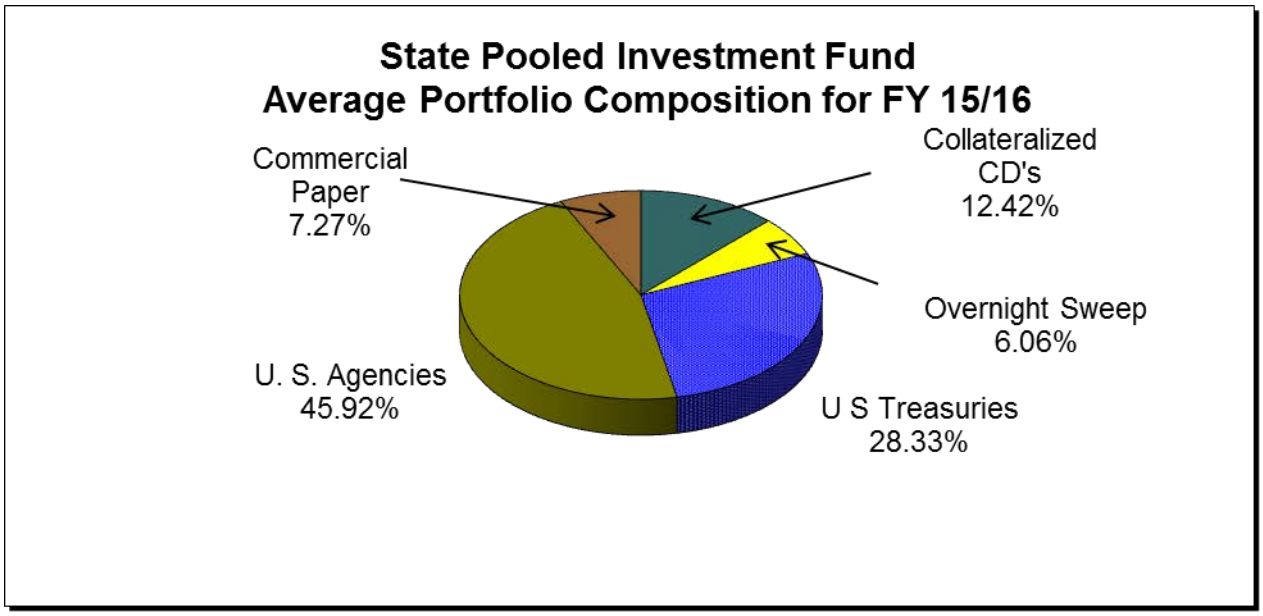
TENNESSEE TREASURY DEPARTMENT
State Pooled Investment Fund Report
For the fiscal year ended June 30, 2016

I. COMPLIANCE WITH INVESTMENT POLICY

The investment policy for the State Pooled Investment Fund is set by the State Funding Board. The board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State, and Treasurer. The investment objective for the state pooled investment fund is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity for state expenditures and other withdrawals from the state pooled investment fund.

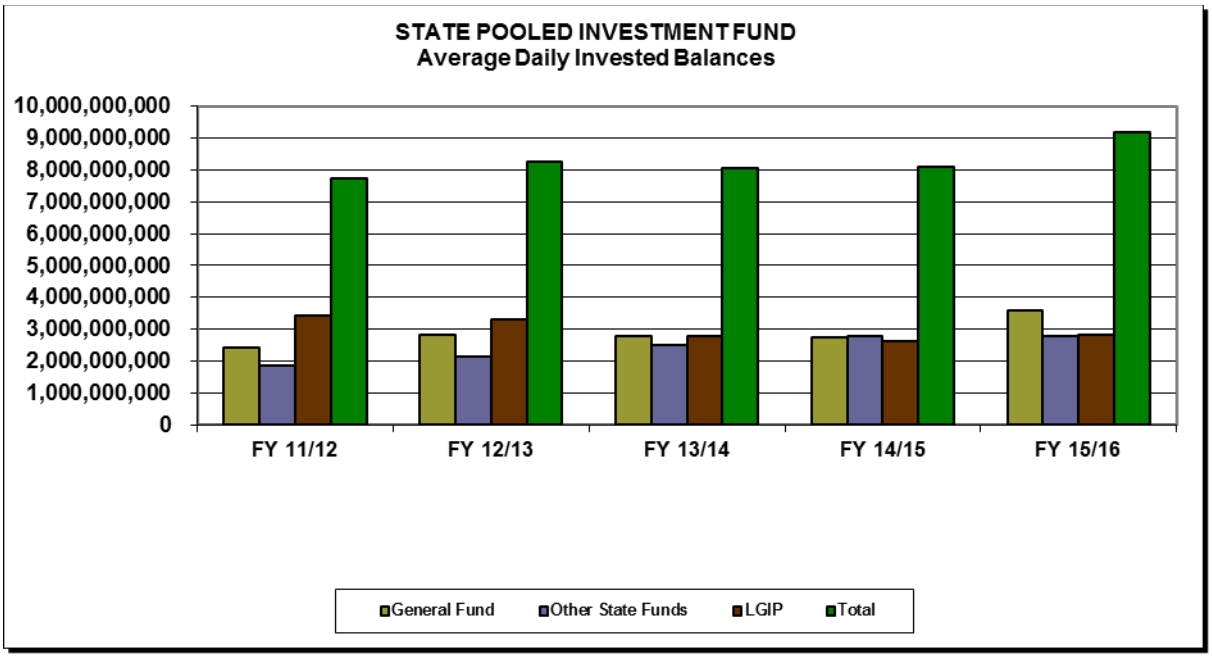
Portfolio Composition

The State Pooled Investment Fund had a monthly average of $ 9.18 billion invested for the fiscal year ended June 30, 2016. The following chart shows the composition of the average portfolio.



The reduced availability of commercial paper that meets the strict credit quality requirements of the SPIF is evidenced by the 7.27% average investment during the fiscal year. Bank demand for State funds has increased slightly, but is still down from levels before the financial crisis in 2008. Six years ago, there was no exposure to US Treasuries in the SPIF, but lack of other quality investments pushed the exposure to 28.33% for the year.

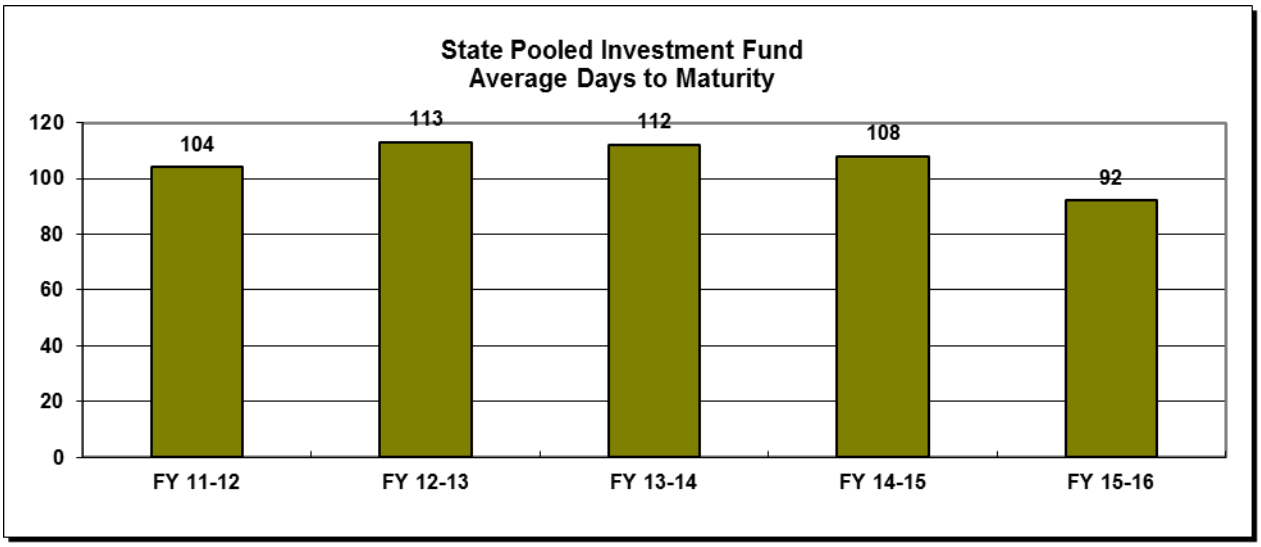
The following chart shows the average monthly balances in the state pooled investment fund for the last five years. At 6/30/16, the LGIP balance comprised 27.6% of the state pooled investment fund. The actual balance of funds available to invest on behalf of the General fund (Unrestricted Accounts) increased to record levels in 2016, growing from $3.61 billion at 6/30/15 to $4.93 billion at 6/30/16.



Liquidity

Until recently, the SPIF operated in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. Until 2010, this rule required a dollar weighted average portfolio maturity of 90 days or less and a maximum maturity of any single investment of 397 days or less. In 2010, the SEC made further modifications that allow a dollar weighted average maturity of either 60 days or 120 days, based upon reporting methods used. The SEC made further changes to Rule 2a7 in 2014 that go into effect in October 2016. GASB implemented Statement 79 in December 2015 that allows government funds to report at amortized cost and transact at a stable dollar. The State Funding Board voted to change the Investment Policy to be in compliance with GASB 79. The liquidity requirements under the revised investment policy require no more than 60 days weighted average maturity, no more than 120 days weighted average life, and 397 days maximum maturity on any single investment.

The following chart shows the dollar weighted average maturity of the SPIF over the past five years.

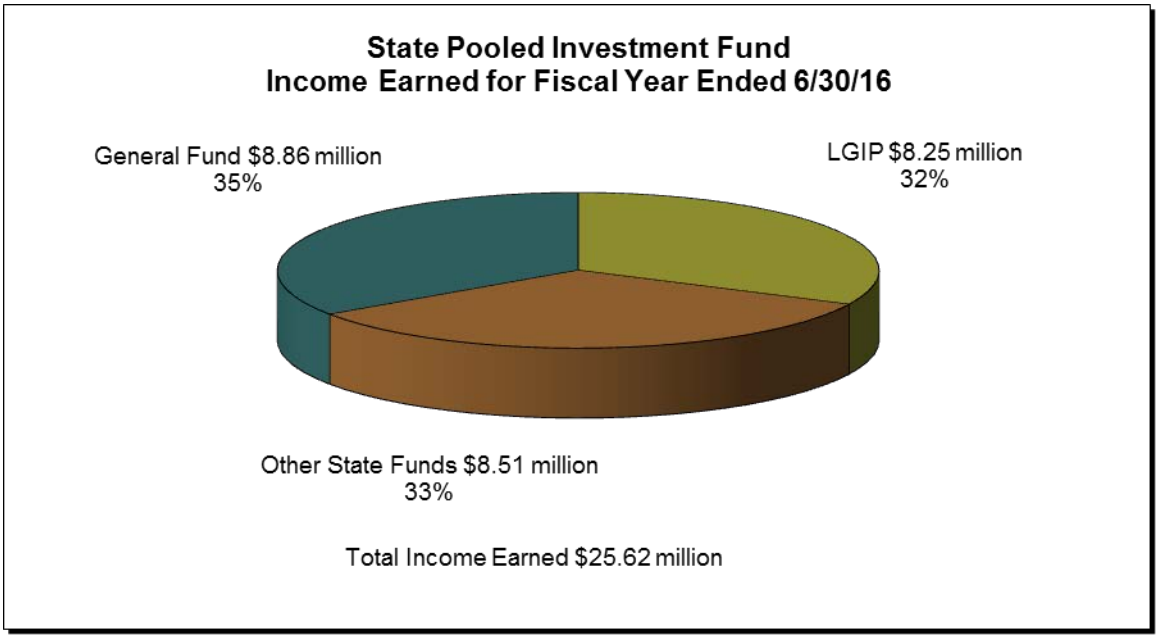


The additional liquidity requirements in GASB 79 require that no more than 5% of the portfolio can be invested in illiquid securities, at least 10% of the portfolio must be invested in daily liquid assets, and at least 30% of the portfolio must be invested in weekly liquid assets. At June 30, 2016, the SPIF had 0% invested in illiquid securities, 40.7% was invested in daily liquid assets, and 66.2% was invested in weekly liquid assets.

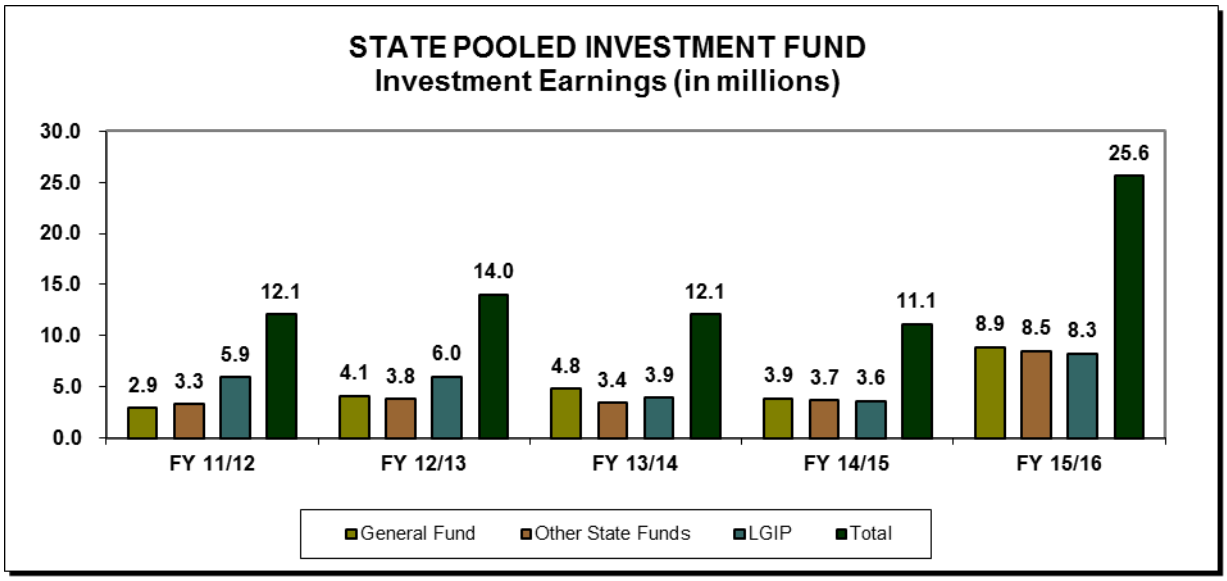
Stress Test Results: The stress tests conducted during FY16 revealed that in each case the portfolio could handle the largest 5-day withdrawal in the history of the fund AND tolerate an interest rate shift of 1.50% without declining in value more than .05% (considered "breaking the buck"). The tests also showed that the portfolio could handle the liquidation of the ten (10) largest LGIP participants in a single day AND tolerate an interest rate shift of 1.25% without declining in value more than .05%. After the investment policy change, the portfolio was actually able to handle each of the scenarios listed above AND tolerate interest shifts in excess of 300 basis points. The scenarios tested are unlikely and near improbable, but that is the reason for the tests. The SPIF is able to handle these scenarios due to the policy restrictions for liquidity and maturity.

II. PORTFOLIO PERFORMANCE

Income earned on the portfolio during the fiscal year ended June 30, 2016 totaled $25.62 million (estimated). The distribution of earnings as shown on the following pie chart was $8.86 million to the General fund; $8.25 million to the LGIP; and, $8.51 million to Other State funds (accounts specified by statute, court order or regulation to receive interest earnings on their balances). (*amounts shown are estimates and are unaudited as of this writing)*



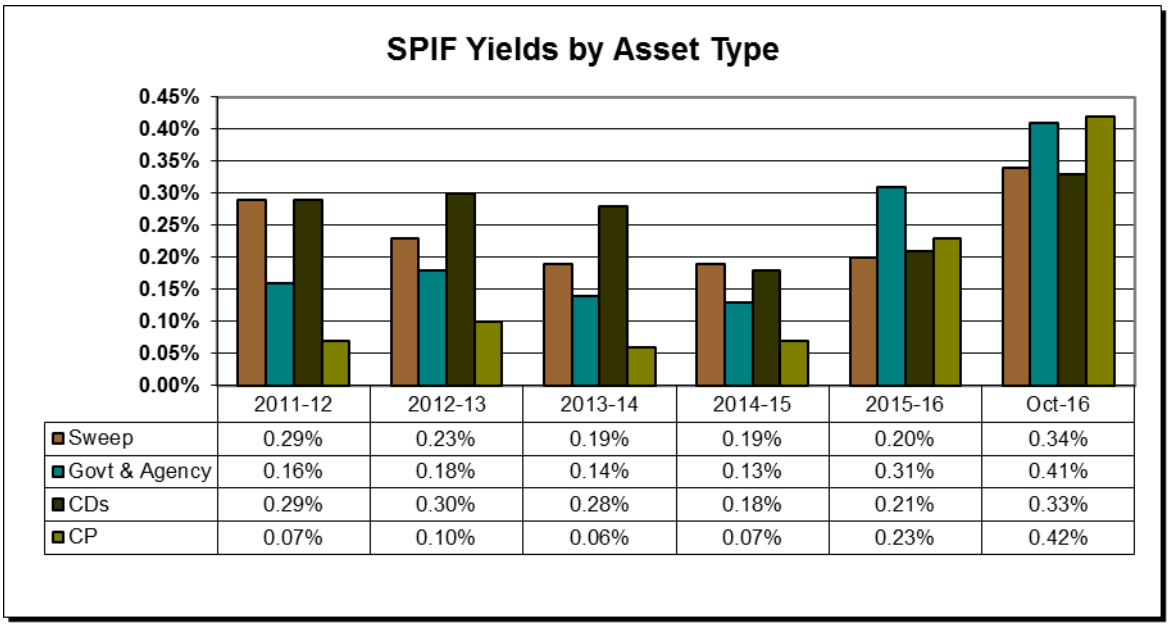
The monies in the SPIF represent the liquid working capital available to the State of Tennessee to cover expenditures until additional revenues are collected. Earnings of the state pooled investment fund for the last five years are shown in the following chart. (*amounts shown for current fiscal year are estimated and unaudited as of this writing)*



The fed funds target rate was lowered on 12/16/08 to a range of 0% to 0.25% and remained at that level until 12/15/15 when the rate was raised to a range of .25% to .50%. There is a increasing possibility that there could be another rate hike in the next few months, maybe as soon as the December 2016 meeting. The chart below shows the actions taken at each of the meetings for the last eighteen months.

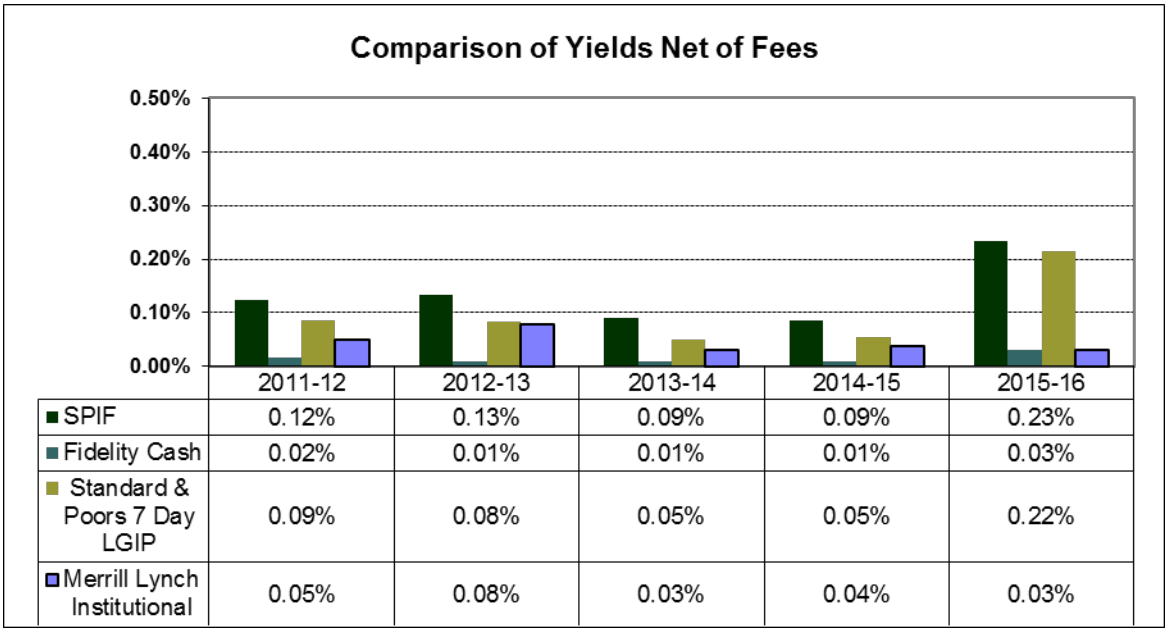
FOMC Announcement Date	Fed Funds Target Rate	Direction	Amount of Change	Primary Credit Rate	Economic Assessment
04/29/2015	0 to 0.25%	None	None	3.25%	Growth Risk
06/17/2015	0 to 0.25%	None	None	3.25%	Growth Risk
07/29/2015	0 to 0.25%	None	None	3.25%	Growth Risk
09/17/2015	0 to 0.25%	None	None	3.25%	Growth Risk
10/28/2015	0 to 0.25%	None	None	3.25%	Growth Risk
12/15/2015	.25 to .50%	Increase	.25%	3.50%	Growth Risk
01/27/2016	.25 to .50%	None	None	3.50%	Growth Risk
03/16/2016	.25 to .50%	None	None	3.50%	Growth Risk
04/27/2016	.25 to .50%	None	None	3.50%	Growth Risk
06/15/2016	.25 to .50%	None	None	3.50%	Growth Risk
07/27/2016	.25 to .50%	None	None	3.50%	Growth Risk
09/21/2016	.25 to .50%	None	None	3.50%	Growth Risk
11/02/2016	.25 to .50%	None	None	3.50%	Growth Risk

The following chart contains the average yields earned by asset type within the SPIF for the last five years and for the month of October, 2016.



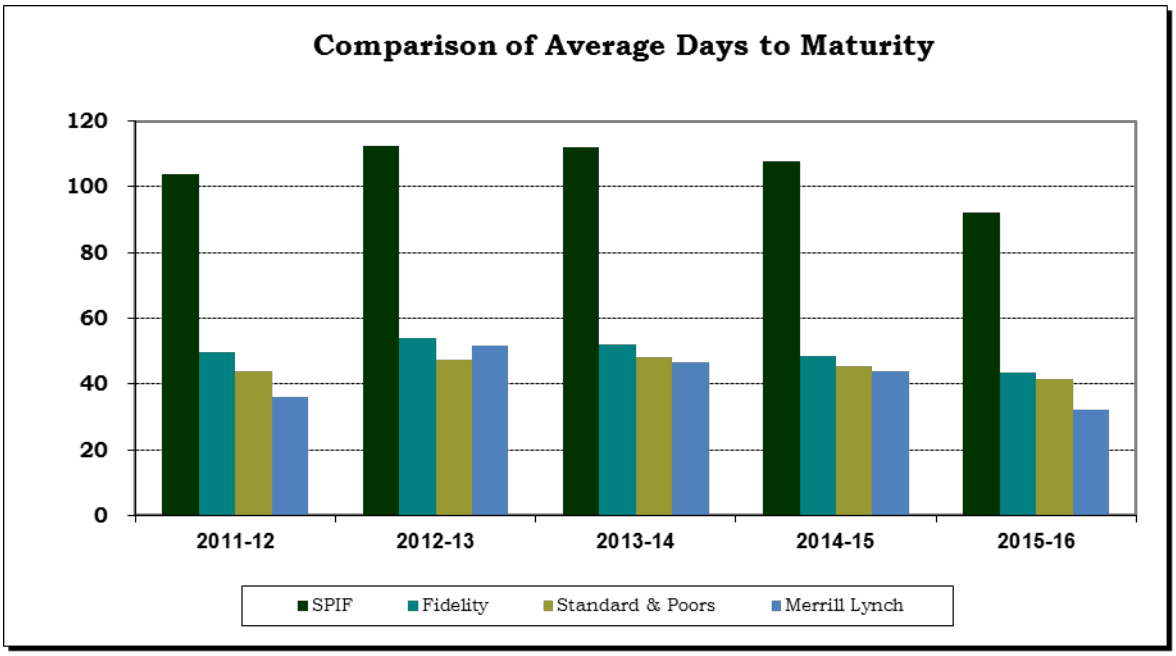
	2011-12	2012-13	2013-14	2014-15	2015-16	Oct-16
Sweep	0.29%	0.23%	0.19%	0.19%	0.20%	0.34%
Govt & Agency	0.16%	0.18%	0.14%	0.13%	0.31%	0.41%
CDs	0.29%	0.30%	0.28%	0.18%	0.21%	0.33%
CP	0.07%	0.10%	0.06%	0.07%	0.23%	0.42%

The State Pooled Investment Fund is actively managed within the Treasury Department. Standard and Poor's provides a rating service for LGIP funds and calculates an index return for the rated funds. The following chart compares the average yield of the SPIF (net of administrative fee) to that index and also to the net yield of two well recognized money market funds governed by SEC Rule 2a7, Fidelity Cash Reserves Fund and the Merrill Lynch Institutional Fund.



	2011-12	2012-13	2013-14	2014-15	2015-16
SPIF	0.12%	0.13%	0.09%	0.09%	0.23%
Fidelity Cash	0.02%	0.01%	0.01%	0.01%	0.03%
Standard & Poors 7 Day LGIP	0.09%	0.08%	0.05%	0.05%	0.22%
Merrill Lynch Institutional	0.05%	0.08%	0.03%	0.04%	0.03%

The following chart indicates how the average days to maturity of the State Pooled Investment Fund compares to the average maturity of the Standard and Poor's rated funds index, Fidelity Cash Reserves Fund, and the Merrill Lynch Institutional Fund.



III. INVESTMENT POLICY REVIEW

Implementation of GASB Statement 79 required an extensive re-write of the Investment Policy for the State Pooled Investment Fund. The Board voted on April 7 to adapt the necessary changes to ensure that the SPIF was in full compliance with GASB. While the content and the appearance of the SPIF Investment Policy changed, the actual day-to-day operation of the SPIF did not need to make a lot of changes. The changes improve transparency and liquidity without having a negative impact on performance. One of the more significant changes is the recognition of the reset date as the maturity date for floating-rate securities. GASB also requires more frequent reporting that includes the shadow price, daily and weekly liquidity, and weighted average maturity and weighted average life of the portfolio.

IV. INVESTMENT PLAN

Eight years ago, the FOMC lowered the Fed Funds rate to a range of zero to 0.25%. On December 15, 2015, the FOMC raised the rate to a range of .25% to .50%. As of the date of this report, there is a high probability that the FOMC will raise the rate again in December, possibly to a range of .50% to .75%. This means that earnings from the SPIF will be remain low during the next fiscal year. Staff will continue to seek ways to generate as much revenue as possible and remain in compliance with the Investment Policy. Staff will continue to maintain a diversified portfolio of CDs, bank deposits, US Government obligations, and commercial paper . The yield curve, actions taken by the Federal Reserve Bank, regulatory changes, and other market conditions will be considered when managing the asset mix and average maturity of the portfolio. Even though actions by the FOMC and the SEC continue to limit inventory and push rates lower, the SPIF remains a safe investment for state funds and monies invested by local government officials. There has been no loss of funds due to credit exposure and no liquidity concerns.

V. COST OF ADMINISTRATION

The cost to operate the SPIF was $4.44 million for the year ended June 30, 2016. The costs of operations are funded from a 4 basis point charge for assets invested (fees were lowered by Treasurer from 5 basis points in January 2016). Most money market funds charge substantially more than 4 basis points. Also, the costs of operations include more than investment management. The 4 basis points finances:

- Investment of portfolio
- Maintenance of collateral
- Collateral pool administration
- Cash concentration
- Bank reconciliations and resolution of reconciling items
- LGIP program
- Warrant reconciliation
- Accounting and recordkeeping
- Support cost such as internal audit, payroll, personnel, etc.

VI. LARGEST HOLDINGS AT JUNE 30, 2016 BY CATEGORY

Treasuries and Agencies

1. US TREASURIES	$2,676,000,000
2. FHLB	2,534,510,000
3. IBRD	1,252,280,000
4. FFCB	940,500,000
5. FNMA	473,832,000

Commercial Paper

1. BNP Paribas	$300,000,000
2. Exxon Mobil	200,000,000
3. Totota Motor Credit	125,000,000
4. General Electric	100,000,000

Bank CD's

1. Regions Bank	$300,000,000
2. Franklin Synergy Bank	300,000,000
3. Pinnacle	270,000,000
4. B B & T	200,000,000
5. First TN Bank	100,000,000

REPORT ON THE
Intermediate Term INVESTMENT FUND
For The Fiscal Year Ended June 30, 2016

PREPARED FOR THE
STATE FUNDING BOARD

November 17, 2016

PREPARED BY
TREASURY DEPARTMENT
CASH MANAGEMENT DIVISION

Tim McClure, CTP

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TENNESSEE TREASURY DEPARTMENT
Intermediate Term Investment Fund Report
For the fiscal year ended June 30, 2016

I. COMPLIANCE WITH INVESTMENT POLICY

The investment policy for the Intermediate Term Investment Fund (ITIF) is set by the State Funding Board. The board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State, and Treasurer. The investment objective for the ITIF is to offer a longer term investment option for the State and any entity that is eligible to invest in the LGIP. Returns of a fund with a longer term investment horizon are expected to outperform liquidity funds such as the SPIF, but there are risks associated with longer term investments. If interest rates increase, the value of investments will decline. Investors should consider the risks involved, including the lack of liquidity provided from a fund such as the ITIF, before making a decision to participate.

Portfolio Composition

The ITIF was launched on July 22, 2013, when the first participant invested $200 million. As of June 30, 2016, there were no additional investments, and the participant had withdrawals a total of $140 million. Investment policy permits investments in US Government and Agency securities, repurchase agreements, prime commercial paper, prime banker's acceptances, and the State Pooled Investment Fund (as a source of liquidity or uninvested idle cash, if necessary). During the fiscal year, investments were only made in government agency securities with idle cash invested in the SPIF only until investments in longer term maturities could be purchased. The average composition during the year ended June 30, 2016, was 97% US agencies and 3% idle cash in the SPIF.

Maturity

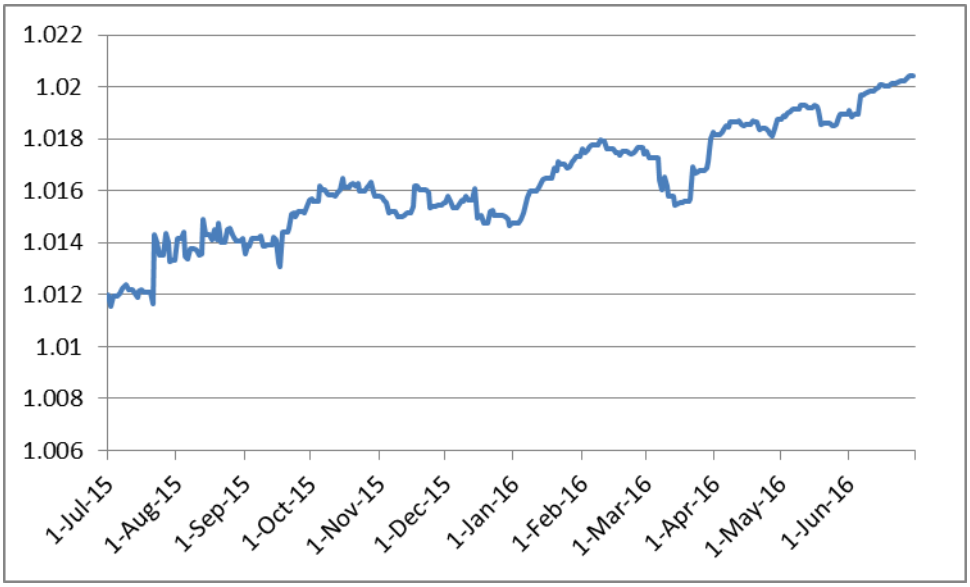
The objective of the ITIF is to take advantage of the expected additional return from investing farther out on the yield curve. The Investment Policy permits investments up to five years with an average maturity of three years. The weighted average maturity of the ITIF began the year at 3 years and rolled down to 2.10 years by June 30. There was an expectation that the Fed might raise rates as many as 3 times during calendar year 2016, but the FOMC decided to stop after the rate hike in December, 2015.

Liquidity

This fund is not designed to provide liquidity. As a result, the fund will not maintain a significant position in cash equivalent securities for the sole purpose of providing liquidity. Investors are encouraged to only invest funds that are not going to be needed for short term liquidity purposes. Withdrawals are limited to the first working day of each quarter, as long as notice is provided at least 30 days prior to the withdrawal date.

II. PORTFOLIO PERFORMANCE

For the period July 22, 2013 thru June 30, 2016, the Intermediate Term Investment Fund has had a market value increase of 2.04%. During fiscal year 2016, the fund increased in value .849% net of expenses, or nearly 85 basis points. During the same period, the SPIF returned 23 basis points, the Vanguard Short Term Federal Fund (VSGBX) had a net return of 185 basis points, and the Barclays Government Bond Fund Index had an average return of 108 basis points. The net asset value (NAV) ranged from 1.011545 on July 2, 2015, to 1.0204339 on June 30, 2016. The graph below demonstrates the daily change in net asset value during the year.



III. INVESTMENT POLICY REVIEW

No Investment Policy changes are anticipated during the current fiscal year. The fund has operated as planned and there have been no concerns that have arisen. Also, there are no market regulations that impact funds of this nature being discussed at this time.

IV. INVESTMENT PLAN

On December 18, 2015, the Federal Reserve raised the Fed Funds rate for the first time since since December, 2008. The rate was raised from a range of zero to 25 basis points to a range of 25 to 50 basis points, with a target of 37 basis points. At the time, the Fed was hinting that there may be 3 additional rate hikes during the year. With inflation and unemployment remaining at low levels, the Fed was not able to raise rates which allowed the ITIF to have its best year of performance. While the safety and liquidity offered from money market funds outweighs the risks of investing in funds with longer maturities for many investors, those that have funds not needed for short term liquidity can benefit from a fund similar to the Intermediate Term Investment Fund (ITIF). There are risks associated with investing in the ITIF. The investment policy of the fund attempts to minimize the risks

by limiting investments to securities that possess little credit risk and by limiting deposits and withdrawals to the first business day of each quarter and requiring a 30 day notice before a withdrawal can be made. There is a strong possibility that the Federal Reserve will raise rates at the December, 2016 meeting of the FOMC, and that would have a negative impact on the ITIF. Staff will continue to monitor the movement in interest rates as well as other market conditions that could impact the fund and make changes as needed to maintain a competitive investment option for public entities across the State.

V. COST OF ADMINISTRATION

The cost to operate the ITIF are minimal due to the efficiencies gained by utilizing many of the same resources as are used to manage other funds within Treasury. The costs of operations are funded from a 5 basis point charge for assets invested. Most commercial funds charge substantially more than 5 basis points. Also, the costs of operations include more than investment management. The 5 basis points finances:

- Investment of portfolio
- Software and hardware support and maintenance
- Accounting and recordkeeping
- Support cost such as internal audit, payroll, personnel, etc.

VI. PORTFOLIO AT JUNE 30, 2016

DESCRIPTION	ACCRUED INCOME	MARKET VALUE	MATURITY	MKT PRICE	PAR	INC PURCHASED	RATE	CUSIP
FEDERAL FARM CR BKS	4,279.17	7,904,358.17	6/5/2017	100.001	7,900,000.00	8,064.58	0.750	3133ECQS
FEDERAL HOME LOAN BANKS	7,292.08	6,458,066.08	11/24/2017	100.012	6,450,000.00	-	1.100	3130A3GA
FEDERAL HOME LOAN BANKS	165,625.00	15,187,075.00	7/22/2020	100.143	15,000,000.00	-	2.500	3130A5XG
FEDERAL FARM CR BKS	57,200.00	16,560,005.00	7/21/2017	100.017	16,500,000.00	-	0.780	3133EE4J6
FEDERAL HOME LOAN BANKS	49,875.00	15,055,275.00	9/7/2018	100.036	15,000,000.00		1.050	3130A7DW
		61,164,779.25						
	Cash	1,265,260.76						
		62,430,040.01						
	SHARES	61,179,897.79						
	NAV	1.020434						

Serving The Middle Tennessee Counties Of
Macon, Smith, Sumner, Trousdale, Wilson

30 years

TENNESSEE CENTRAL
ECONOMIC AUTHORITY

2015/2016 ANNUAL REPORT

MESSAGE FROM CHARLY

The Authority has been in existence for three decades and had great success and major challenges. We have numerous people to thank for their leadership. We must even appreciate our challenges as each has made us a passionate team with a vision to evolve to new achievements. The "Year of Change" best describes our 2015-16 fiscal year as we complete our third decade. Our team will carry a new banner forward as the "Tennessee Central Economic Authority." We will continue united in our vision as a regional economic development authority and working to build on the foundation provided by the Four Lake Regional Industrial Development Authority. These accomplishments have been possible due to a united endeavor from the Board, our elected officials, staff, and professional services working in partnership with the State of Tennessee, TVA, MTIDA, GNRC, and UCDD.

The willingness to embrace change has created a new name, a new master plan for the PowerCom Industrial Center, engineered a new industrial access road, removed outdated buildings for a new site, and added new jobs across the region. All of our five counties are working to change their future with new industrial property. A willingness for change is improving our opportunity for new jobs and investments into our communities.

As we continue forward there will be additional changes and challenges that reflect our growth and development. We must continue to change as a team and keep our edge to seeking excellence. We will improve our product and enhance our abilities to assist business and in doing this, we will enrich the economic conditions for our citizens and communities As always, thank you for letting me be a part of the team and supporting our changes.

May God Bless each of you & with my sincere appreciation,

Charly Lyons

MESSAGE FROM THE STAFF

The 4L/Tennessee Central Annual Report presents a glimpse of our performance for the past fiscal year. It only highlights the numerous colleagues involved, activities, and accomplishments that were achieved for the enhancement of our communities and setting the stage for the next generation.

It reveals the collective perseverance of Legislators, Board of Directors, TNECD, TVA, MTIDA, GNRC, UCDD, TCAT, workforce development entities, and community leaders all working together for the greater good of our region and our State. The Annual Report also validates the numerous roles essential to a community's success and willingness to improve.

The Four Lake Authority was created by the State of Tennessee Legislators 30 years ago. It has evolved from legislation to a positive and active entity. As always, the Staff is deeply grateful and fortunate to work alongside such dedicated professionals. We appreciate your trust, confidence, and assistance as we continue to maintain integrity & focus and seek opportunities for the benefit of our five-county region as a whole, without preference.

BOARD OF DIRECTORS

Chairman
Anthony Holt
Sumner County Executive

Vice-Chairman
Michael Nesbitt
Smith County Mayor

Secretary/Treasurer
Carroll Carman
Trousdale County Mayor

Macon County Representative
Steve Jones
Macon County Mayor

Wilson County Representative
Randall Hutto
Wilson County Mayor

Senate Appointee
Mae Perry
Director, TCAT-Hartsville

House Appointee
Sabra Hodge
Smith County

KEY EVENTS

ECD & Legislative Lunch with Board & Staff
Industry Appreciation Lunch
SEDC Fall Conference
GNRC Annual Meeting
TEDC Spring & Fall Conferences
ATVG Winter & Spring Meetings
JECDB Meetings in Macon, Smith, Trousdale, and Wilson
USDA/Rural Development Conference
TVA's Annual Economic Development Forum
Forward Sumner Annual meeting
UCDD Annual meeting
Gallatin State of the City Address
TEDC Day on the Hill
TEP Board Meeting for Marketing
Annual Governor's Conference
MTIDA Annual Meeting
TVA & KPMG Consulting's InvestPrep Program Workshop
Select USA Conference
UCDD Planning with Smith & Macon
CEDS GNRC
NCTC - Foundation of Rural Services Congressional Tour
TEP Recruiting Event in NYC with Commissioner Boyd
Westmoreland USDA Grant
TTAP TDOT Workshop
Site Selectors Guild
TVA Target Market Specialist Showcase
TCHS Career Day
Macon County Industrial Property Tour
TVA Tour of Sumner Enterprise Park
TCAT General Advisory Board Meetings
FTZ Meeting with Mayor Dean

TN Central joins UCDD & TNECD for the SelectUSA Investment Summit in Washington DC

ECD & Legislators Appreciation Luncheon

MTIDA Annual meeting with Bob Bibb, Mark Farley, Billy Woodard, and Mayor Nesbitt.

2015 Governor's Conference

UCDD Economic Development Planning Session in Macon County

UCDD Economic Development Planning Session in Smith County

Charly attends ATVG's Winter Meeting

TENNESSEE CENTRAL
ECONOMIC AUTHORITY

Charly attends SEDC Conference in Savannah. Pictured (l-r): Megan Farris, Don Alexander, Charly Lyons, Mark Farley, and Sarah Cunningham.

Charly & Jessica attend TEDC's "Day on the Hill"

Senator Corker visits Tennessee Central Region

Macon County receives Legislative update from Senator Beavers

OVERVIEW OF THE TENNESSEE CENTRAL ECONOMIC AUTHORITY

Population Growth

2021 Projected: 383,118

2016 Estimate: 357,789

Population Growth

2016-2021 Projected: 7.08%

2011-2016 Growth: 10.46%

2000-2010 Growth: 22.42%

	Macon	Smith	Sumner	Trousdale	Wilson	TN Central
2010	22,258	19,135	161,288	7,867	114,620	325,168
2011	22,468	19,156	163,943	7,809	116,787	330,163
2012	22,509	19,126	166,183	7,780	119,106	334,704
2013	22,643	19,064	169,128	7,785	122,002	340,622
2014	23,012	19,040	172,870	8,002	125,418	348,342
2015	22,177	19,295	175,989	8,042	128,911	355,414

	Davidson	Rutherford	Williamson	Tennessee	United States
2010	628,131	263,781	184,068	6,356,585	308,758,105
2011	635,779	269,097	188,296	6,398,408	309,346,863
2012	649,318	274,339	193,010	6,455,469	311,718,857
2013	659,428	281,596	198,969	6,469,130	314,102,623
2014	669,094	289,147	205,334	6,547,779	316,427,395
2015	678,889	298,612	211,672	6,600,299	321,418,820

Source: Nielsen 2016

EDUCATION OVERVIEW

Area/School	2015 ACT Average
Macon County	18.5
Smith County	18.5
Sumner County	20.4
Trousdale County	20.8
Wilson County	20
TN Central Region	19.64
Davidson County	18.7
Rutherford County	19.9
Williamson County	23.8
United States	19.9

Area/School	2015 Graduation Rate
Macon County	80.1%
Smith County	90.7%
Sumner County	91.6%
Trousdale County	98.7%
Wilson County	95.7%
TN Central Region	91.4%
Davidson County	81.6%
Rutherford County	93.9%
Williamson County	95.5%
United States	93.9%

Education

13.03%	34.49%	22.28%	7.28%	15.28%	7.64%
Less than High School Diploma	High School Diploma (GED)	Some College, No Degree	Associate Degree	Bachelor's Degree	Master's Degree and Beyond

Universities and Colleges

Belmont University
Cumberland University
Fisk University
Lipscomb University
Meharry Medical College
Middle Tennessee State University
Tennessee State University
Tennessee Technological University
TN College of Applied Technology in Gallatin
TN College of Applied Technology in Hartsville
TN College of Applied Technology in Lebanon
TN College of Applied Technology in Murfreesboro
TN College of Applied Technology in Nashville
TN College of Applied Technology in Portland
TN College of Applied Technology in Red Boiling Springs
Trevecca Nazarene University
Vanderbilt University
Volunteer State Community College
Welch College
Union University

2015 - 2016 PERFORMANCE INDEX

CCA Trousdale Turner Correctional Center Opens

Smith County Job Fair in Carthage

Wilson County receives 4L Economic Development Grant for $32,506.00

PowerCom Shovel-Ready Site completed with TVA InvestPrep Grant

ARC Automotive breaks ground & names plant manager

Master Plan developed for PowerCom Industrial Center

KPMG/TVA site tours in Smith & Sumner

ECD Grant Award received for $50,000.00

PowerCom Dock Structure Assessment Completed

PowerCom Site Review by ECD & Austin Consulting for Tennessee Select Site Certification

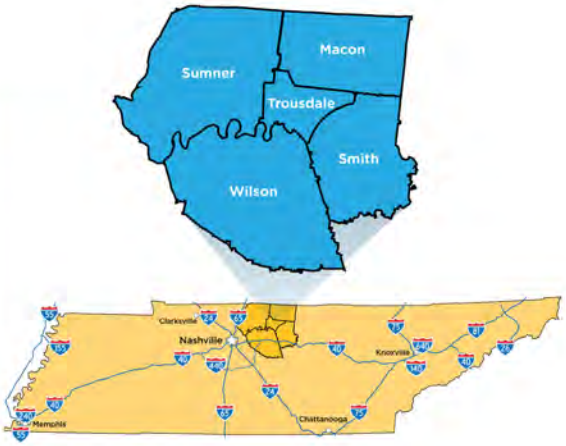
Four InvestPrep Applications Submitted to TVA

State Legislators approve "Tennessee Central Economic Authority" Name Change

TENNESSEE CENTRAL
ECONOMIC AUTHORITY

- Northeast of Nashville
- Future Port on Cumberland
- I-65 & I-40 Corridors
- Access to Six Airports
- Foreign Trade Zone
- 5 TCAT Locations

Thank You to Legislators for passing legislation officially changing the name of Four Lake Regional Industrial Development Authority to **Tennessee Central Economic Authority.** The change in the name better describes where our region is located within the Volunteer State served by the Authority and better informs those who may be industrial or commercial prospects looking to locate here for our regional assets.



Senators: Mae Beavers & Ferrell Haile

Representatives: Kelly Keisling, William Lamberth, Susan Lynn, Mark Pody, Courtney Rogers, and Terri Lynn Weaver

2015/2016 FISCAL OVERVIEWS

General Fund
(Staff & Office Operations)

REVENUES

$263,875.16
Rent

$154,551.50
Other

TOTAL REVENUES: **$418,426.66**

EXPENDITURES

$168,040.55
Salaries & Benefits

$27,791.08
Contract Services

$36,322.45
Office Expenses

$21,705.57
Advertising/Marketing

$10,445.97
Meeting/Event Expenses

$16,637.94
Travel

$1,134.00
Miscellaneous

$6,465.45
Dues and Fees

TOTAL EXPENDITURES: **$288,543.01**

Capital Improvements Fund
(PowerCom Industrial Center & Off-Site Development)

REVENUES

$881,629.16
TVA In-Lieu-of-Tax Funding

$65,683.56
Property Sales & Loan Receipts

$188,944.48
Other
(Grants & Interest)

TOTAL REVENUES: **$1,136,257.20**

EXPENDITURES

$165,245.15
Engineering/Admin/ InsuranceFees

$149,916.00
Rural Development Loan Payment

$573,152.84
Roads & Fencing

$418,991.37
Projects
(Infastructure & Site Development)

$32,506.29
4L Grant Programs

$500.00
Hartsville Industrial Park Property

$105,131.18
Repairs & Maintenance

$1330.98
Misc. Expenses

TOTAL EXPENDITURES: **$1,446,773.81**

POWERCOM INDUSTRIAL CENTER IMPROVEMENTS

20+ Acre Shovel-Ready Site
Before / After

Master Plan

Future 10 Acre Shovel-Ready Site

ARC Automotive Begins Operation
(Pictured L-R: Charly Lyons; Tim Frazier, ARC Site Mgr; Wolfgang Roeder, TNECD)

REGIONAL PRODUCT DEVELOPMENT INITIATIVES

Tennessee Central assists Smith County as Mayor Nesbitt & Billy Woodard tour potential industrial property with consultants

The 20+ Acre PowerCom site in Trousdale County is visited by TNECD & Austin Consulting for certification evaluation with the TN Select Site program

Tennessee Central assists Sumner County with PEP (Property Evaluation Program) preparations & visit from TNECD & Austin Consulting

Tennessee Central assists Macon County with potential industrial park expansion plans & site visits with consultants.

BUSINESS & WORKFORCE DEVELOPMENT

The Tennessee College of Applied Technology Hartsville fully supports the ongoing efforts of the TN Central Economic Authority and serves as the premier supplier of workforce development for Trousdale, Sumner, Wilson, Smith and Macon Counties. We are working closely with Beretta Industries (Sumner), ARC Automotive, Inc.(Trousdale), Corrections Corporation of America (Trousdale) and many others to develop training programs and provide qualified employees.

The College fulfills its mission by:

- Providing competency-based training through superior quality, traditional and distance learning instruction methods that qualify completers for employment and job advancement.
- Contributing to the economic and community development of the communities served by training and retraining employed workers.
- Ensuring that programs and services are economical and accessible to all residents of Tennessee.
- Building relationships of trust with community, business, and industry leaders to supply highly skilled workers in areas of need.

At TCAT Hartsville, the focus is on your success in today's ever-changing, state-of-the-market economy. Our faculty and staff believe in providing the highest quality services and instruction to ensure an exciting learning experience. Our instructors are qualified and dedicated to the responsive changes needed by business and industry, students, and the community. We are proud to train citizens for the skilled careers of today's workforce.

Education is about creating new possibilities for career and personal growth. As the economy becomes increasingly global and competitive, the facilities and curriculum at TCAT Hartsville will provide the education and training that are required to compete in the global market.

-Mae Perry, Director

Trousdale High School Career Fair, co-sponsored with Tri-County

The TN Central office assists and houses a satellite location of the Volunteer State Community College TN Small Business Development Center (TSBDC). The Center provides group sessions and one-on-one counseling & training for small business owners and entrepreneurs needing assistance in the TN Central region. Charles Alexander, the Center's Director, as well as Dave Jose, Counselor, provide private counseling at the following locations in the TN Central region during the third full week of each month:

Tuesday 9-12 pm	Mt. Juliet Chamber (615-758-3478 for appointment)
Wednesday 8-10am	TN Central Office (615-374-4607 for appointment)
Wednesday 11-1 pm	Macon County Chamber (615-666-5885 for appointment)
Wednesday 2-4 pm	Westmoreland Chamber (615-644-5156 for appointment)
Thurs. 9-11am, & 1-3pm	Lebanon Chamber (615-444-5503 for appointment)
Friday 9-12noon	Portland Chamber (615-325-9032 for appoifntment)
Friday 9-12noon & 1-4pm	White House Chamber (615-672-3937 for appointment)

2015/2016 WORK STRATEGIES

Economic Development Program

- Increase industrial product in the five-county region by assisting individual counties in economic development projects and property opportunities.
- Respond to Request for Proposals for the region or individual counties.
- Market & promote the Tennessee Central as a five county region.
- Utilize the master plan for PCIC to develop site, and infrastructure (building sites, electrical, water/sewer, telecommunications, fiber optics, & road).
- Provide technical assistance to incubator clients as required (financing, marketing, etc.).
- Maintain and promote partnership & cooperation among elected officials, economic development organizations, and Chambers of Commerce in the region.
- Management of the Authority's industrial property in PowerCom Industrial Center and the Hartsville Industrial Park.
- Continue port development and partnership with the Corps of Engineers on plans for a Cumberland River dock/barge access at PowerCom Industrial Center.
- Continued involvement with RPO and TDOT for regional highway infrastructure.
- Sustain communications with CCA and ARC automotive emphasizing the need to complete obligations pledged by Tennessee Central, the Dept. of ECD, & TVA while continuing the development of their projects and job creation.

Business & Workforce Development Assistance

- Support our partnership with the SBA's TN Small Business Development Centers.
- Develop a partnership with the Biz Foundry for entrepreneurship & start-up businesses.
- Support small business development seminars and referrals throughout the five-county region.
- Expand communications with existing businesses.
- Serve as a member of Tennessee College of Applied Technology (TCAT)/ Hartsville's Advisory Board.
- Market the training services of TCAT and Volunteer State CC to businesses and industries in the region.
- Assist with job fairs in the region.
- Assist with Workforce Development programs in the Tennessee Central Region

Program Administration

- Comply with reporting requirements of the State of TN (Sunset Review & State Funding Board), Board of Directors, funding agencies, and others as necessary.
- Maintain financial reporting, audits, and budget management.
- Provide an informative web site and news updates.
- Manage the daily operations of the office and admin processes.
- Search & pursue grants and funding applications.
- Oversight & management of the PowerCom Industrial Center and tenant relationships.
- Maintain professional affiliations with governments entities, funding agencies, TN Dept. of ECD, Chambers of Commerce, UT/CTAS, the Greater Nashville Regional Council, MTIDA, the Upper Cumberland Development District, TN Economic Development Council, TVA, TEP, the region's electric distributors, and utility districts.

Other

- Support the updating, printing and distribution of Community Data Sheets for the twelve targeted communities in the Four Lake region.
- Increase public awareness of the Tennessee Central Economic Authority and provide a vision for the region.
- Promote Tennessee Central as a valuable partner for economic development internally for our five-county region.
- Pursue other regional development opportunities as requested by the Board of Directors.
- Aggressively pursue new projects and tenants.

TN Central's success would not be possible without the assistance and support of these professional organizations!

Area Colleges & Universities

Dick Walker, 1st Executive Director, 1986-2008. 12/07/1941-09/16/11

Teresa Carman, Office Manager 1990-Present

Donna Arrington, Program Manager/ Asst. Director from 2003-2013

Jerry Clift, Executive Director 2010-2011

Don Rigsby, Executive Director from 2012-2014

Charly Lyons, Executive Director 2013-Present

Jessica Farlow, Project Manager/ Asst. Director 2014-Present

30 YEARS

TENNESSEE CENTRAL
ECONOMIC AUTHORITY

Frank McKee served as Executive Director for the Hartsville Project Coordinating Committee established in 1975 to provide impact mitigation assistance to the five county governments (Macon, Smith, Sumner, Trousdale, and Wilson) impacted by the TVA Nuclear Plant construction in Hartsville. The original Board consisted of the Mayors from each county or their representative: Macon Co Judge Aubrey Dallas; Smith Co Judge Jack Kittrell; Gallatin Mayor Ted Kelley for Sumner Co; Mayor James Donoho, Trousdale County; and Wilson Co Judge Don Simpson. Such a positive relationship evolved among the five-county Board members that following the announced halt of the TVA Nuclear Plant project, the local governments decided to continue efforts focusing on industrial & economic development for the impacted region. Thus, the Four Lake Regional Industrial Development Authority was created by Public Act on **April 15, 1986.**

Ron Fultz (right) wrote legislation creating the Four Lake Regional Industrial Development Authority

2001/2002 Executive Committee & Staff

While with TNECD, Rob Schmid & Dick Walker were instrumental in the development & implementation of the 3-Star Program. Today, all five Counties of the TN Central region are 3-Star Award holders.

Vol. 112 ✦ No. 112 Lebanon, Tennessee ✦ Tuesday, June 6, 2000

The TVA Hartsville site is shown with outlines of the existing facility and the proposed site for industry. The upper-left corner between the green and red outlines is the area proposed for industrial development.

TVA committee explores Hartsville plans

PowerCom Infrastructure Groundbreaking 2004

Infrastructure Development Begins

2006 Spec Building Groundbreaking

CCA Groundbreaking 2014

4L Office 1991 - 2012

4L/Tennessee Central Office

2007 Spec Building nears completion

ARC Automotive 2014 announcement

TENNESSEE CENTRAL
ECONOMIC AUTHORITY

tennesseecentral.org

Charly Lyons, ***Executive Director***

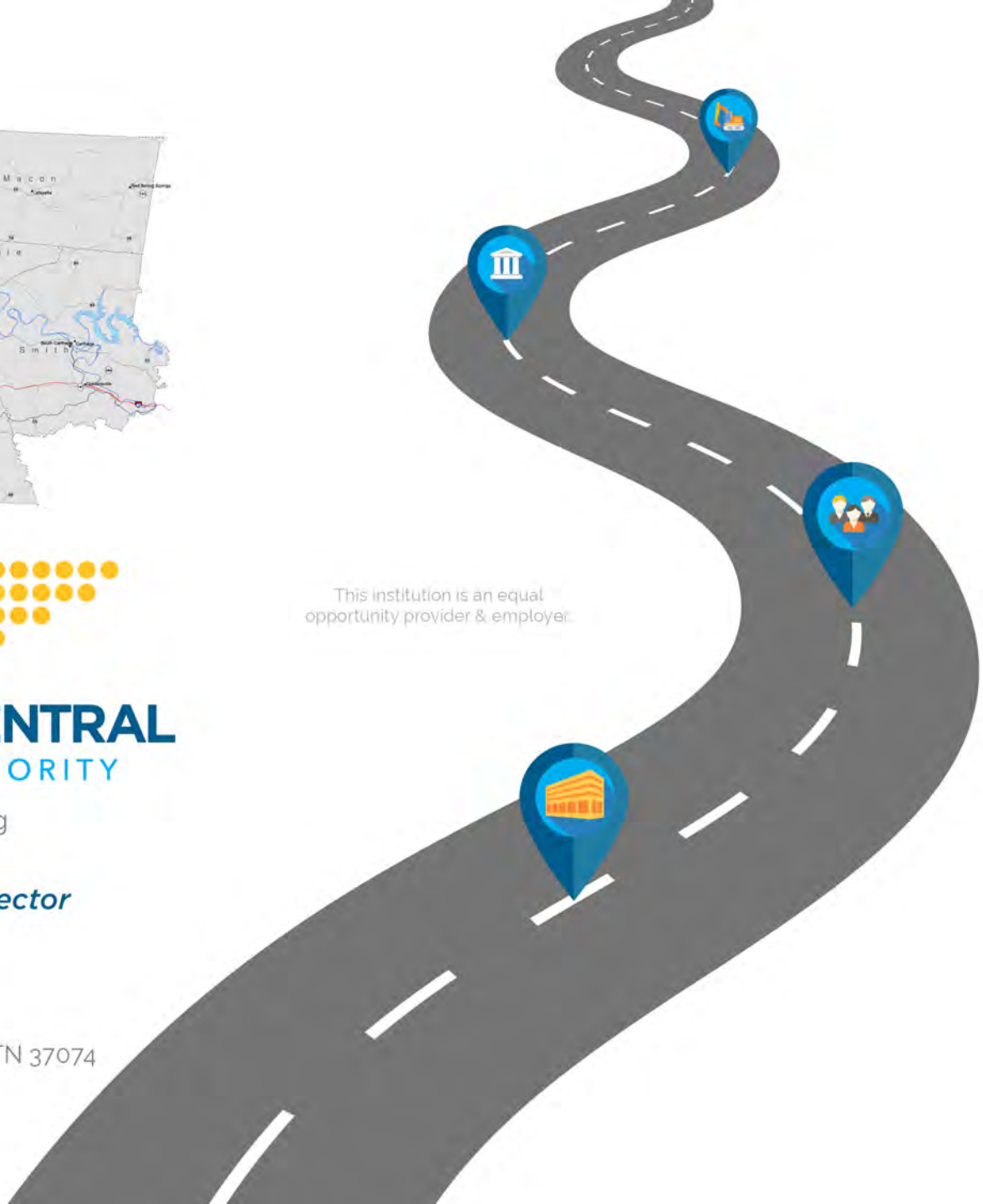
615.374.4607

615.426.2520

615.374.4608

702 McMurry Blvd | Hartsville, TN 37074

clyons@tennesseecentral.org



This institution is an equal opportunity provider & employer.

11:40 AM

11/07/16

Accrual Basis

Capital Improvements Fund
Balance Sheet Standard
As of October 31, 2016

	Oct 31, '16
ASSETS	
Current Assets	
Checking/Savings	
Money Market Acct	4,085,847.03
NOW Checking Acct	15,549.34
Total Checking/Savings	4,101,396.37
Accounts Receivable	
11000 — Accounts Receivable	-2,556.88
Total Accounts Receivable	-2,556.88
Other Current Assets	
12000 — Undeposited Funds	2,556.88
Total Other Current Assets	2,556.88
Total Current Assets	4,101,396.37
TOTAL ASSETS	4,101,396.37
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
20000 — Accounts Payable	149,916.00
Total Accounts Payable	149,916.00
Credit Cards	
24100 — VISA	25.98
Total Credit Cards	25.98
Total Current Liabilities	149,941.98
Total Liabilities	149,941.98
Equity	
30000 — Opening Balance E...	2,745,473.18
32000 — Retained Earnings	1,487,619.80
Net Income	-281,638.59
Total Equity	3,951,454.39
TOTAL LIABILITIES & EQUITY	4,101,396.37

Capital Improvements Fund
Profit and Loss Budget vs. Actual
July through October 2016

	Budget	Jul - Oct '16	$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
43300 — In-Lieu-of-Tax Funds	850,000.00	0.00	-850,000.00	0.0%
44500 — Grants				
44520 — ECD	68,011.43	18,011.43	-50,000.00	26.5%
Total 44500 — Grants	68,011.43	18,011.43	-50,000.00	26.5%
46400 — Other Types of Income				
46410 — Property Sales	0.00	0.00	0.00	0.0%
46420 — V&C Sprinkler Sys Pmts	30,682.56	10,227.52	-20,455.04	33.3%
46430 — Interest	9,000.00	3,545.51	-5,454.49	39.4%
46440 — Reimbursements & Misc	0.00	0.00	0.00	0.0%
46400 — Other Types of Income - ...		-583.34		
Total 46400 — Other Types of Income	39,682.56	13,189.69	-26,492.87	33.2%
Total Income	957,693.99	31,201.12	-926,492.87	3.3%
Gross Profit	957,693.99	31,201.12	-926,492.87	3.3%
Expense				
60300 — Regional Development				
60305 — Zwirner Property	0.00	0.00	0.00	0.0%
60310 — Select TN Grant Program				
60312 — Smith County	11,130.00	0.00	-11,130.00	0.0%
60313 — Sumner County	0.00	0.00	0.00	0.0%
60314 — Trousdale County	7,749.55	1,900.00	-5,849.55	24.5%
60315 — Wilson County	20,000.00	0.00	-20,000.00	0.0%
Total 60310 — Select TN Grant Prog...	38,879.55	1,900.00	-36,979.55	4.9%
60320 — 4L ED Grant Program				
60321 — Macon County	98,322.43	0.00	-98,322.43	0.0%
60322 — Smith County	83,492.47	0.00	-83,492.47	0.0%
60323 — Sumner County	100,000.00	0.00	-100,000.00	0.0%
60324 — Trousdale County	100,000.00	0.00	-100,000.00	0.0%
60325 — Wilson County	57,501.72	0.00	-57,501.72	0.0%
Total 60320 — 4L ED Grant Program	439,316.62	0.00	-439,316.62	0.0%
Total 60300 — Regional Development	478,196.17	1,900.00	-476,296.17	0.4%
62100 — Contract Services				
62140 — Legal Fees	7,500.00	129.00	-7,371.00	1.7%
62150 — Prof. & Eng. Services	60,000.00	3,621.60	-56,378.40	6.0%
Total 62100 — Contract Services	67,500.00	3,750.60	-63,749.40	5.6%
62800 — PowerCom Expenses				
62810 — Property Insurance	8,000.00	0.00	-8,000.00	0.0%
62820 — Existing Bldg Upgrades/R&...	100,000.00	453.00	-99,547.00	0.5%

Capital Improvements Fund
Profit and Loss Budget vs. Actual
July through October 2016

	Budget	Jul - Oct '16	$ Over Budget	% of Budget
62822 — Site Development/Hulk	180,000.00	0.00	-180,000.00	0.0%
62823 — Site Development/Goldilocks	300,000.00	0.00	-300,000.00	0.0%
62824 — Infrastructure/ARC	131,900.00	0.00	-131,900.00	0.0%
62825 — 2017 ECD Grant Projects	50,000.00	1,550.00	-48,450.00	3.1%
62831 — Waterline Exts/Inst/R&M	90,000.00	0.00	-90,000.00	0.0%
62835 — Sewerline Exts/Inst/R&M	225,000.00	0.00	-225,000.00	0.0%
62840 — Road Upgrades & Maint.	65,000.00	0.00	-65,000.00	0.0%
62841 — TDOT/CCA Road Pjt	435,921.55	1,468.80	-434,452.75	0.3%
62850 — Dock/Port Development	100,000.00	0.00	-100,000.00	0.0%
62851 — Dredging	250,000.00	0.00	-250,000.00	0.0%
62860 — Signs/Gate/Fence Adds/R...	40,000.00	360.00	-39,640.00	0.9%
62870 — Utility Expenses (w/s/g/e)	10,000.00	919.73	-9,080.27	9.2%
62880 — Contract Labor				
62881 — Site R&M, Security	18,000.00	1,640.00	-16,360.00	9.1%
62882 — Dozer & Bush Hogging	35,000.00	0.00	-35,000.00	0.0%
Total 62880 — Contract Labor	53,000.00	1,640.00	-51,360.00	3.1%
62890 — Supplies/Equip R&M	6,000.00	499.58	-5,500.42	8.3%
Total 62800 — PowerCom Expenses	2,044,821.55	6,891.11	-2,037,930.44	0.3%
65100 — Other Expenses				
65160 — Other Costs	2,500.00	382.00	-2,118.00	15.3%
70000 — RD Loan Payment	149,916.00	149,916.00	0.00	100.0%
75000 — Admin. Services Fee	150,000.00	150,000.00	0.00	100.0%
Total 65100 — Other Expenses	302,416.00	300,298.00	-2,118.00	99.3%
Total Expense	2,892,933.72	312,839.71	-2,580,094.01	10.8%
Net Ordinary Income	-1,935,239.73	-281,638.59	1,653,601.14	14.6%
Net Income	-1,935,239.73	-281,638.59	1,653,601.14	14.6%

11/01/16

General Fund
Balance Sheet
As of October 31, 2016

	Oct 31, '16
ASSETS	
Current Assets	
Checking/Savings	
Checking	16,305.73
Savings	1,042,201.58
Total Checking/Savings	1,058,507.31
Accounts Receivable	
11000 — Accounts Receivable	12,077.16
Total Accounts Receivable	12,077.16
Other Current Assets	
12000 — Undeposited Funds	4,500.00
Total Other Current Assets	4,500.00
Total Current Assets	1,075,084.47
TOTAL ASSETS	1,075,084.47
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
24100 — VISA	-12.44
24110 — MASTERCARD	-632.73
Total Credit Cards	-645.17
Total Current Liabilities	-645.17
Total Liabilities	-645.17
Equity	
30000 — Opening Balance E...	554,579.53
32000 — Retained Earnings	386,948.40
Net Income	134,201.71
Total Equity	1,075,729.64
TOTAL LIABILITIES & EQUITY	1,075,084.47

11/01/16

General Fund
Budget vs. Actual
July through October 2016

	Budget	Jul - Oct '16	$ Over Bud...	% of Budget
Ordinary Income/Expense				
Income				
44500 — Government Grants				
44510 — TVA Grants (CR to #60930)	2,000.00	3,500.00	1,500.00	175.0%
Total 44500 — Government Grants	2,000.00	3,500.00	1,500.00	175.0%
46400 — Other Types of Income				
46410 — Interest	700.00	253.29	-446.71	36.2%
46420 — Administrative Services Fee	150,000.00	150,000.00	0.00	100.0%
46430 — Miscellaneous				
46431 — Mtg Lunch Fees (CR to #6...	700.00	160.00	-540.00	22.9%
46432 — Event Sponsors (CR to #60...	900.00	900.00	0.00	100.0%
Total 46430 — Miscellaneous	1,600.00	1,060.00	-540.00	66.3%
Total 46400 — Other Types of Income	152,300.00	151,313.29	-986.71	99.4%
47500 — Rentals	165,750.00	73,800.08	-91,949.92	44.5%
Total Income	320,050.00	228,613.37	-91,436.63	71.4%
Gross Profit	320,050.00	228,613.37	-91,436.63	71.4%
Expense				
60900 — Business Expenses				
60910 — Meeting Related Expenses	11,500.00	1,182.65	-10,317.35	10.3%
60920 — Dues/Fees/Renewals	7,000.00	1,658.73	-5,341.27	23.7%
60930 — Events	3,600.00	181.97	-3,418.03	5.1%
Total 60900 — Business Expenses	22,100.00	3,023.35	-19,076.65	13.7%
62100 — Contract Services				
62110 — Accounting Fees	3,000.00	0.00	-3,000.00	0.0%
62140 — Legal Fees	19,845.00	6,615.00	-13,230.00	33.3%
62150 — Other Contract Services	5,000.00	1,815.04	-3,184.96	36.3%
Total 62100 — Contract Services	27,845.00	8,430.04	-19,414.96	30.3%
65000 — Office Operations				
65010 — Rent	9,000.00	3,000.00	-6,000.00	33.3%
65020 — Postage/Printing	700.00	193.76	-506.24	27.7%
65030 — Utilities	4,000.00	1,223.16	-2,776.84	30.6%
65040 — Supplies & Equip.	6,500.00	1,623.60	-4,876.40	25.0%
65050 — Communications	7,000.00	2,160.65	-4,839.35	30.9%
65120 — Insurance - Office, D&O, WC	4,650.00	3,635.50	-1,014.50	78.2%
Total 65000 — Office Operations	31,850.00	11,836.67	-20,013.33	37.2%

	Budget	Jul - Oct '16	$ Over Bud...	% of Budget
65100 — Misc.	3,000.00	532.98	-2,467.02	17.8%
65110 — Marketing	24,000.00	3,985.88	-20,014.12	16.6%
66000 — Payroll Expenses				
66010 — President/CEO	75,000.00	25,000.00	-50,000.00	33.3%
66020 — Vice President	51,000.00	17,000.00	-34,000.00	33.3%
66030 — Executive Admin Assistant	32,000.00	15,040.95	-16,959.05	47.0%
66050 — Benefits	27,500.00	6,444.24	-21,055.76	23.4%
Total 66000 — Payroll Expenses	185,500.00	63,485.19	-122,014.81	34.2%
68300 — Travel	18,000.00	3,117.55	-14,882.45	17.3%
Total Expense	312,295.00	94,411.66	-217,883.34	30.2%
Net Ordinary Income	7,755.00	134,201.71	126,446.71	1,730.5%
Net Income	7,755.00	134,201.71	126,446.71	1,730.5%

DECLARATION OF TRUST
FOR
OTHER POST-EMPLOYMENT BENEFITS
KNOWN AS THE
KNOX COUNTY POST-RETIREMENT INCENTIVE MEDICAL TRUST

A Declaration of Trust made as of the 24 day of August, 20 16, by **Knox County Government** hereinafter referred to as the "Employer"). This Trust shall come into existence when the Tennessee State Funding Board created pursuant to Tennessee Code Annotated, Section 9-9-101 has approved the same.

RECITALS

WHEREAS, the Governmental Accounting Standards Board issued Statements 43 and 45, which set forth standards on accounting and reporting for post employment benefits (other than pensions) by governmental entities; and

WHEREAS, these new standards will require political subdivisions of the State of Tennessee to report such post employment benefits on an actuarial basis during an employee's career rather than on a pay-as-you-go basis during retirement; and

WHEREAS, the Tennessee General Assembly enacted Chapter 771 of the Tennessee Public Acts of 2006 that authorized Tennessee political subdivisions that offer other post employment benefits to create an investment trust whereby the political subdivisions may begin financing those benefits in advance; and

WHEREAS, the Employer is a political subdivision of the State of Tennessee that is exempt from federal income tax under the Internal Revenue Code of 1986, as amended from time to time, and whose chief governing body has passed a resolution authorizing the establishment of this investment trust for the exclusive purpose of funding other post employment benefits accrued by employees of the Employer, to be paid as they come due in accordance with the arrangements between the Employer, the Participants and their Beneficiaries, as such terms are defined in Section 1.1 below.

NOW, THEREFORE, in consideration of the premises, the Employer does hereby establish this Trust to be known as the **Knox County Post Retirement Incentive Medical Trust ("PRIM").**

ARTICLE I
DEFINITIONS

1.1. Definitions. For purposes of this Declaration of Trust, the following terms shall have the respective meanings set forth below unless otherwise expressly provided.

(a) "Beneficiary" means the Spouse, Dependents, or the person or persons designated by a Participant pursuant to the terms of a post employment benefits plan to receive any benefits payable under the plan.

(b) "Committee" means the committee created pursuant to Section 5.1 of this Trust.

(c) "Dependent" means an individual who is a person described in Section 152(a) of the Internal Revenue Code of 1986, as may be amended from time to time.

(d) "Directed Trustee" means Commercial Bank and Trust, and its successors and assigns, or such other entity as may be appointed by the Committee to provide trust services pursuant to Section 6.1(b) of this Trust.

(e) "Employee" means an individual who performs services for the Employer, and who has been designated as eligible to participate in, and receive benefits under a post employment benefits plan.

(f) "Other post-employment benefits" ("OPEB") or "post-employment benefits" means non-pension benefits paid on behalf of a former Employee or a former Employee's Beneficiary after separation from service. Such benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability.

(g) "Participant" means an Employee of the Employer who satisfies the requirements for participation in a post employment benefits plan sponsored by the Employer.

(h) "Spouse" means the Participant's lawful spouse as determined under the laws of the State of Tennessee.

(i) "State Funding Board" or "Funding Board" means the board created pursuant to Tennessee Code Annotated, Section 9-9-101.

ARTICLE II
PURPOSE AND SCOPE OF TRUST

2.1 This Trust is established exclusively for the purpose of funding other post employment benefits accrued by Employees of the Employer, to be paid as they come due in accordance with the terms of the Employer's respective post employment benefits plan.

2.2 Nothing in this Trust shall be construed to define or otherwise grant any rights or privileges to post employment benefits. Such rights and privileges, if any, shall be governed by the terms of the Employer's respective post employment benefits plan.

ARTICLE III
TRUST ASSETS

3.1 This Trust shall consist of all contributions paid or otherwise delivered to it, and all investment income and realized and unrealized gains and losses.

ARTICLE IV
TRUST CONDITIONS

4.1 This Trust shall be irrevocable, and the assets of this Trust shall be preserved, invested and expended solely pursuant to and for the purposes of this Declaration of Trust and shall not be loaned or otherwise transferred or used for any other purpose. The assets of the Trust shall be expended solely to:

(a) Make payments for other post employment benefits pursuant to and in accordance with terms of the post employment benefits plan; and

(b) Pay the cost of administering this Trust.

4.2 This Trust shall have the powers, privileges and immunities of a corporation; and all of its business shall be transacted, all of its funds invested, and all of its cash and securities and other property held in trust for the purpose for which received.

4.3 All assets, income and distributions of the Trust shall be protected against the claims of creditors of the Employer, Employees, Former Employees, Participants or their Beneficiaries, and shall not be subject to execution, attachment, garnishment, the operation of bankruptcy, the insolvency laws or other process whatsoever, nor shall any assignment thereof be enforceable in any court.

ARTICLE V
OPEB COMMITTEE

5.1 The general administration and responsibility for the proper operation of this Trust shall be governed by an OPEB Committee (hereinafter the "Committee"). The Committee shall consist of members as follows:

(a) Senior Director of Finance
(b) Insurance Committee Chair

5.2 The Committee shall annually elect from its membership a chair and a vice chair and shall designate a secretary who need not be a member of the Committee. Written minutes covering all meetings and actions of the Committee shall be prepared by the secretary and shall be kept on file, open to public inspection pursuant to the provisions of Tennessee Code Annotated, Title 10, Chapter 7.

5.3 Members of the Committee shall serve without compensation but shall receive reasonable reimbursement for actual and necessary travel expenses in accordance with the Employer's travel regulations.

5.4 A majority of the voting members of the Committee serving shall constitute a quorum for the transaction of business at a meeting of the Committee. Voting upon action taken by the Committee shall be conducted by a majority vote of the voting members present at the meeting of the Committee. The Committee shall meet at the call of the chair, or upon the call of a majority of the members, and as may be otherwise provided in any operating policies or procedures adopted by the Committee.

5.5 The business of the Committee shall be conducted at meetings of the Committee held in compliance with Tennessee Code Annotated, Title 8, Chapter 44.

ARTICLE VI
POWERS AND DUTIES OF THE COMMITTEE

6.1 In addition to the powers granted by any other provisions of this Trust, the Committee shall have the powers necessary or convenient to carry out the purposes and objectives of this Trust including, but not limited to, the following express powers:

(a) Invest any funds of the Trust in any instrument, obligation, security, or property that constitutes legal investments for assets of the Trust as described in applicable law, including without limitation Tennessee Code Annotated, Section 8-50-1201, et seq., as amended from time to time, including the use of mutual funds, commingled investment funds or collective investment trusts,

institutional accounts, or master trusts, provided that any such investment is authorized in the investment policy adopted, and from time to time amended, by the chief governing body of the Employer.

(b) Contract for the provision of all or any part of the services necessary for the management and operation of the Trust, including, but not limited to, trust and custody services and investment management services;

(c) Contract with financial consultants, auditors, and other consultants as necessary to carry out its responsibilities under the provisions of this Trust;

(d) At the Committee's sole discretion, contract with an actuary or actuaries for the benefit of the Employer in determining the level of funding necessary by the Employer to fund the other post employment benefits offered by the post employment benefits plan;

(e) Prepare annual financial reports, including audited financial statements, following the close of each fiscal year relative to the activities of the Trust. Such statements and reports shall contain such information as shall be prescribed by the Committee and be prepared in accordance with the standards established by the Governmental Accounting Standards Board; and

(f) Upon the request of the State Funding Board, file the annual report and financial statements with the secretary of the State Funding Board. The report and statements shall be filed with the secretary of the Board within ninety (90) calendar days from the date of the request, unless the secretary extends such time in writing.

ARTICLE VII
POWERS AND DUTIES OF THE DIRECTED TRUSTEE

7.1 The Directed Trustee shall act solely in a directed capacity hereunder and shall act solely as directed by the Committee or Employer. It shall be the duty of the Directed Trustee to receive, hold, manage, invest and reinvest the Trust funds and to make payments from the Trust in accordance with governing law and the provisions set forth herein pursuant to this Trust. The Directed Trustee shall be responsible for such sums as are actually received by it as Directed Trustee hereunder. The Directed Trustee shall have no duty or authority to ascertain whether any contributions should be made to it pursuant to the post employment benefits plan. The duties and obligations shall be limited to those expressly imposed upon it by this Trust.

ARTICLE VIII
INVESTMENTS

8.1 The Committee shall be responsible for investing the assets of the Trust funds in accordance with Section 6.1(a) above.

8.2 Subject to the limitations in Section 6.1(a) above, the Committee, or its nominee, has full power to hold, purchase, sell, assign, transfer, or dispose of any of the securities or investments in which the assets of the Trust have been invested, as well as of the proceeds of such investments and any moneys belonging to the Trust.

8.3 All of the Committee's business shall be transacted, all of the Trust funds invested, all warrants for money drawn, any payments made, and all of the cash and securities and other property of the Trust shall be held:

(a) In the name of the Committee as title holder only, or as Directed Trustee;

(b) In the name of its nominee; provided, that the nominee is authorized by Committee resolution solely for the purpose of facilitating the transfer of securities and restricted to members of the Committee, or a partnership composed of any such members; or

(c) For the account of the Committee or its nominee in such forms as are standard in the investment community for the timely transaction of business or ownership identification, such as book entry accounts.

8.4 Except as otherwise provided, no Committee member nor employee of the Committee shall have any personal interest in the gains or profits of any investment made by the Committee; nor shall any Committee member or employee of the Committee, directly or indirectly, for such member or employee or as an agent, in any manner for such member or employee or as an agent, in any manner use the same except to make such current and necessary payments as are authorized by the Committee.

ARTICLE IX
EMPLOYER CONTRIBUTIONS TO TRUST

9.1 Notwithstanding Section 6.1(d) above, it shall be the sole and exclusive responsibility of the Employer to determine the level of contributions the Employer will make to the Trust for the purpose of financing the post employment benefits accrued by its respective Employees. Neither the Trust, nor the Committee shall be responsible for collecting or otherwise determining the level of contributions needed by the Employer to finance any post employment benefits offered by the Employer.

ARTICLE X
WITHDRAWALS FOR PAYMENT OF OTHER POST EMPLOYMENT BENEFITS

10.1 The Committee shall, upon the request of the Employer, reimburse the Employer for payments made for other post employment benefits upon the Committee's receipt of certified documentation evidencing the payment. Such payments shall be made by the Committee on no more than a quarterly basis.

10.2 Notwithstanding anything in this part to the contrary, the Committee shall not honor a request for reimbursement made by the Employer under this Article if assets credited to the Trust are not equal to or greater than the amount requested. Retroactive payments shall be paid by the Committee upon accumulation of sufficient assets.

ARTICLE XI
BOOKS AND RECORDS

11.1 The books and records of the Trust shall be maintained in accordance with generally accepted accounting principles and shall be open to public inspection. The annual report, including financial statements, all books, accounts and financial records of the Trust shall be subject to audit by the State Comptroller of the Treasury.

11.2 The Committee may, with the prior approval of the State Comptroller of the Treasury, engage a licensed certified public accountant to perform the audits. The audit contract between the Committee and the certified public accountant shall be on a contract forms prescribed by the State Comptroller of the Treasury. Reimbursement of the costs of audits prepared by the State Comptroller of the Treasury and the payment of fees for audits prepared by a licensed certified public accountant shall be the responsibility of the Committee, which may be paid from the assets of the Trust.

ARTICLE XII
AMENDMENT

11.1 The Employer shall have the right at any time and from time to time to amend, in whole or in part, any or all of the provisions of this Trust; however, no such amendment shall authorize or permit the assets of the Trust (other than such part as may be used to pay the expenses of administering the Trust) to be used for or diverted to purposes other than those expressed in this Declaration of Trust. Any such amendment shall not be effective until approved by resolution of the chief governing body of the Employer, and by the State Funding Board.

ARTICLE XIII
PLAN TERMINATION OR MODIFICATION

13.1 In the event the other post-employment benefits plan is terminated or substantially modified rendering the assets of this Trust to be unnecessary to fund the plan, the assets shall be distributed pursuant to Section 13.2 below.

13.2 (a) If the plan is terminated, the Employees and former Employees who have met all the conditions for other post-employment benefits as set out in the plan document in existence immediately preceding plan termination (including any deceased Employee or former Employee's surviving Beneficiaries) shall be vested in a proportionate share of the accumulated assets based on the present value of the plan benefit in existence immediately preceding plan termination as determined by an independent consulting actuary.

(b) If a substantial plan modification is adopted that because a reduction of benefits or eligibility results in the plan moving from a funded status of less than seventy-five percent (75%) to an over-funded status of at least one hundred fifty percent (150%) and continues in such over-funded level for two (2) consecutive actuarial valuations, then such action shall be considered a plan termination and the excess assets shall be distributed in the same manner as in subsection (a) above.

13.3 Actuarial valuations contemplated by this Article shall be performed by the plan's independent consulting actuary in accordance with actuarial methods recognized by the Governmental Accounting Standards Board for other post- employment benefits.

ARTICLE XIV
PARTICIPANT OR BENEFICIARY CONTRIBUTIONS TO TRUST

14.1 If Participant or Beneficiary contributions are required or permitted under the terms of the other post-employment benefits plan, such contributions shall be assets of this Trust and subject to all the provisions of this Trust. Provided, however, the Employer or its designee shall establish a record keeping account for each Participant or Beneficiary showing the amount of contributions made by such Participant or Beneficiary, and to the extent authorized under the Plan, any earnings or interest thereon. Notwithstanding Article XIII or any other provision of this Trust to the contrary, a Participant or Beneficiary shall be vested in the amount recorded to that Participant's or Beneficiary's account.

ARTICLE XV
PROTECTIVE CLAUSE

15.1 Neither the Employer, the Committee, nor the Trust shall be responsible for the validity of any contract of insurance or other arrangement maintained in connection with the post employment benefits plan, or for the failure on the part of the insurer or provider to make payments provided by such contract, or for the action of any person which may delay payment or render a contract void or unenforceable in whole or in part.

ARTICLE XVI
CONSTRUCTION

16.1 This Trust created herein shall be governed by and construed in accordance with the laws of the State of Tennessee.

16.2 If any terms and conditions of this Trust are held to be invalid or unenforceable as a matter of law, the other terms and conditions of this Trust shall not be affected thereby and shall be construed to effectuate the purpose of this Trust.

[The next and last page is the signature page]

EMPLOYER:

Tim Burchett
Knox County Mayor

8/24/16
Date

OPEB Committee:

DIRECTED TRUSTEE:

Commercial Bank and Trust

APPROVED:

Chair of State Funding Board

Date