

TENNESSEE STATE FUNDING BOARD
November 13, 2015
8:30 a.m./Legislative Plaza – (Room LP-16)

AGENDA

1. Call Meeting to order
2. Approval of State Funding Board Minutes from September 15, 2015
3. Presentation of Revenue Report for November: 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
U.T. Center for Business and Economic Research

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

Mr. Robert Currey, Chief Economist, Fiscal Review Committee

5. Lottery Revenue Estimating Presentations:

Mr. Robert Currey, Chief Economist, Fiscal Review Committee

Tennessee State Lottery Corporation:
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 2016-2017 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B)
7. Report on the Disposition of Lottery for Education Reserve, Thomas Kim, Department of the Treasury
8. State Pooled Investment Fund (SPIF) and Intermediate Term Investment Fund (ITIF) Reports:
Mr. Tim McClure, Department of the Treasury
9. Report From Tennessee State Veterans' Home Board:
Mr. Ed Harries, Executive Director of the
TSVHB Ms. Danielle Brown, Controller of the
TSVHB

Recess (To Reconvene November 19, 2015, 2 p.m., Legislative Plaza, Room LP-29)

THIS MEETING WILL NOT BE LIVE VIDEO STREAMED

TENNESSEE STATE FUNDING BOARD
September 15, 2015

The Tennessee State Funding Board (the "Board") met on Tuesday, September 15, 2015, at 2:00 p.m., in the Executive Conference Room, State Capitol, 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
The Honorable David Lillard, State Treasurer
Commissioner Larry Martin, Department of Finance and Administration

The following members were absent:
The Honorable Bill Haslam, Governor

Seeing a physical quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the August 13, 2015, Board meeting. Mr. Hargett made a motion to approve the minutes. Commissioner Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Allen Borden, Assistant Commissioner, Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Senior Financial Advisor, ECD, to present the FastTrack funding report. Mr. VanderMeer reported that, as of the date of the last Board meeting, the FastTrack balance was \$179,617,042.63 and since that time, new appropriations, representing the interest earned for fiscal year 2015, had been received in the amount of \$20,243.22; \$454.60 in funds had been deobligated and returned to the FastTrack program; and \$2,016,920.00 in new loans had been approved, which resulted in an adjusted FastTrack balance available for funding grants or loans of \$177,620,820.45 as of today's meeting. Mr. VanderMeer reported that commitments in the amount of \$152,702,758.35 resulted in an uncommitted FastTrack balance of \$24,918,062.10. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$6,506,000, and if these projects were approved, the uncommitted balance would be \$18,412,062.10, or 89.6% of FastTrack funds committed.

Mr. Borden 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. Mr. Borden then presented the following FastTrack projects:

- **Amedysis Holding, LLC – Nashville (Davidson Co.)**
FastTrack Economic Development \$ 900,000

- **Denso Manufacturing Tennessee, Inc. – Maryville (Blount Co.)**
FastTrack Infrastructure Development \$ 5,000,000

- **Ryder Integrated Logistics – Spring Hill (Maury Co.)**
FastTrack Job Training Assistance \$ 606,000

they were no longer going to be used for the intended purpose. Commissioner Martin made a motion to approve the Resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then commented that since state law requires the revenue estimating process to begin in November of each year, staff would begin scheduling those Board meetings to take place in November.

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

Approved on this _____ day of November 2015.

Respectfully submitted,

Sandra Thompson
Assistant Secretary



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Tennessee State Funding Board

November 13, 2015

Lee Jones

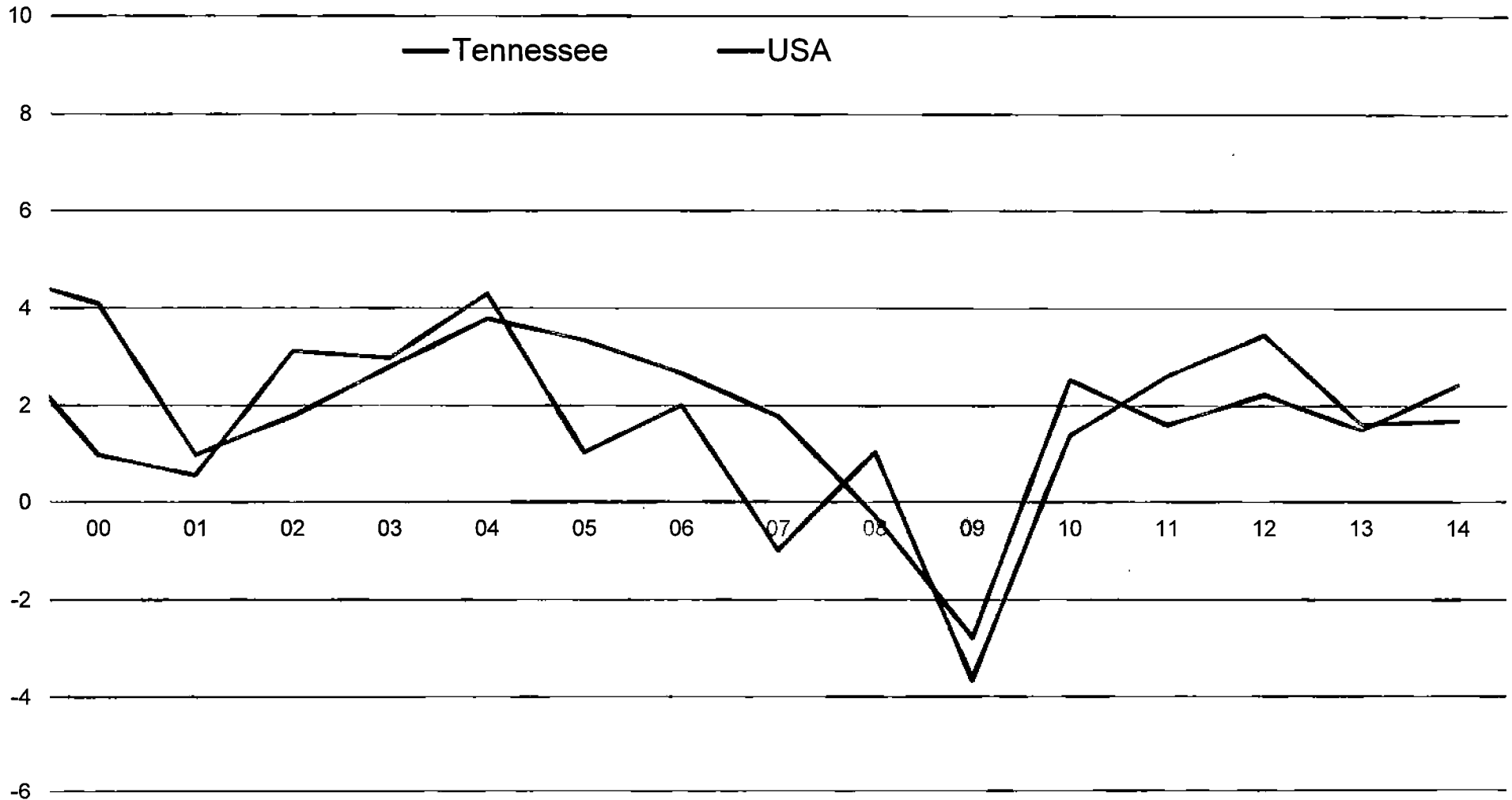
Regional Executive - Tennessee

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

Economic Growth in Tennessee and the U.S., 2000-2014






year-over-year % change



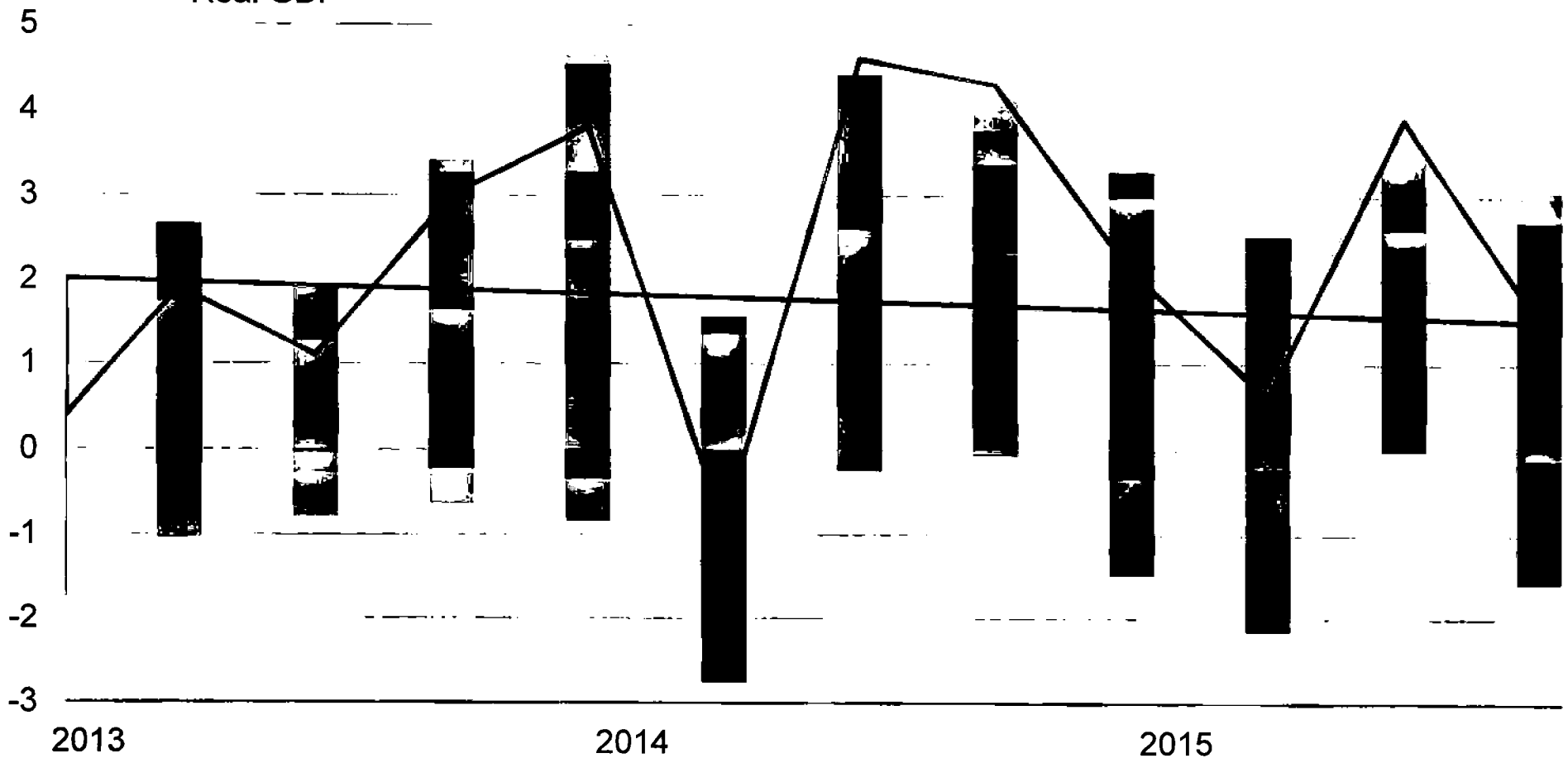
Source: Bureau of Economic Analysis

And consumer spending (light green) continues to drive real GDP growth

Contributions to Real GDP Growth
quarterly, percent, seasonally adjusted annualized rate

 Intellectual Property Products
 Net Exports
 Private Inventory Investment
 Nonresidential Structures
 Real GDP

 Government
 Nonresidential Equipment & Software
 Residential Investment
 Consumer Spending



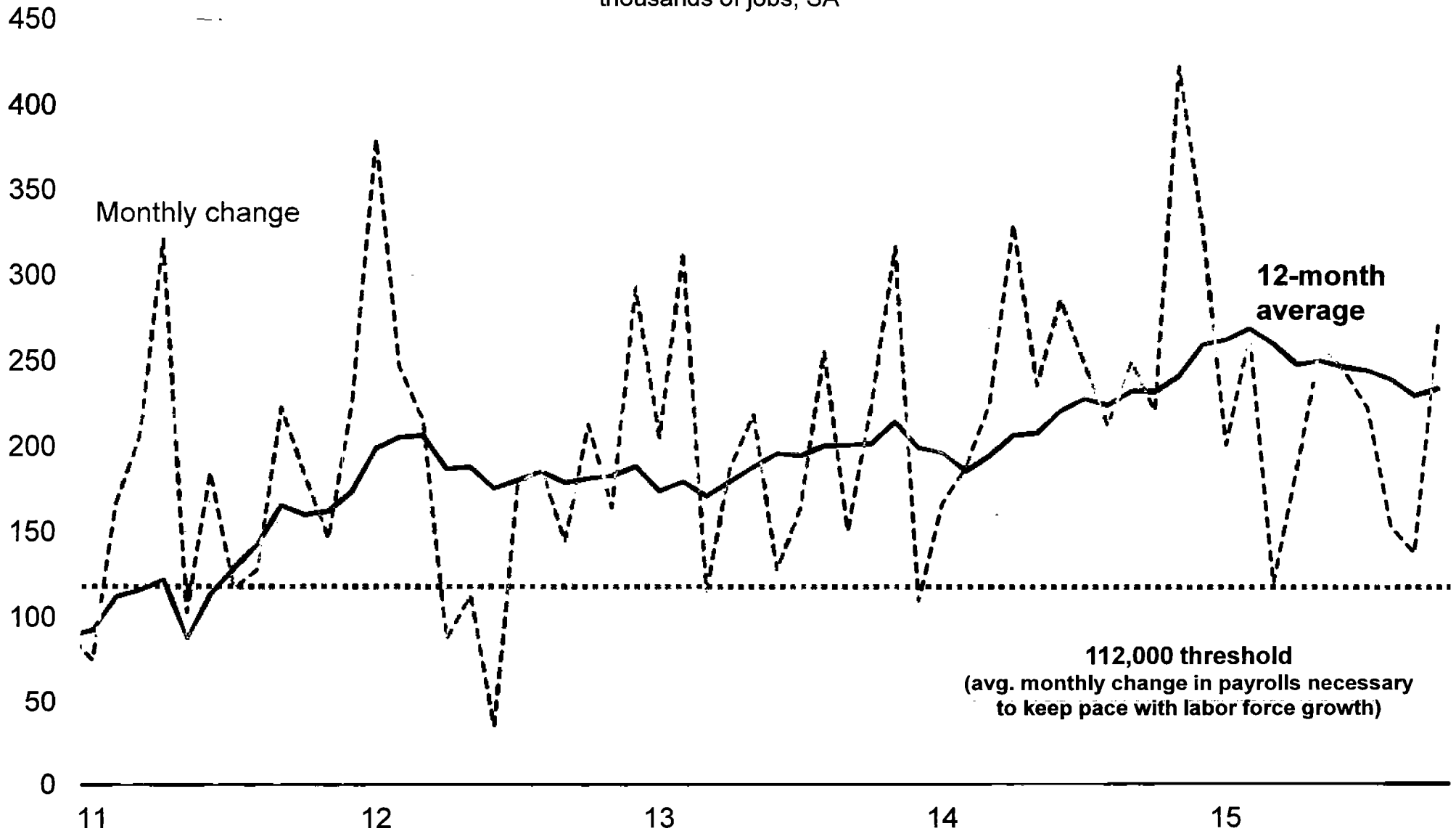
Source: Bureau of Economic Analysis

through Q3 2015

The economy added a net 271,000 new jobs in October, well above the threshold of 112,000 needed to continue to make progress in the labor market

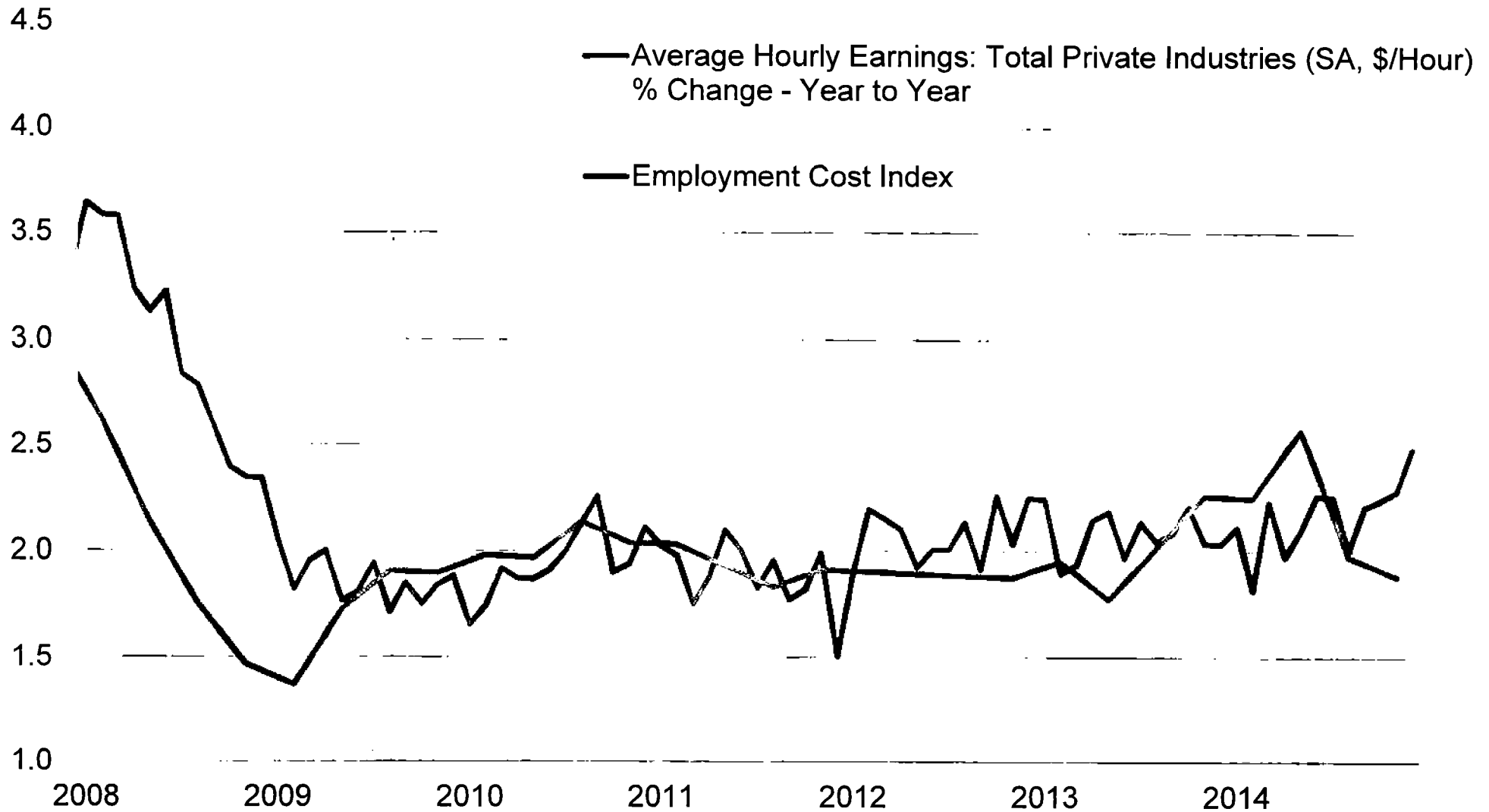
Payroll Employment Changes

thousands of jobs, SA



The most recent reading on average hourly earnings suggests that wage growth— which has been stuck around 2% throughout the recovery— may be starting to pick up

year-over-year change, SA

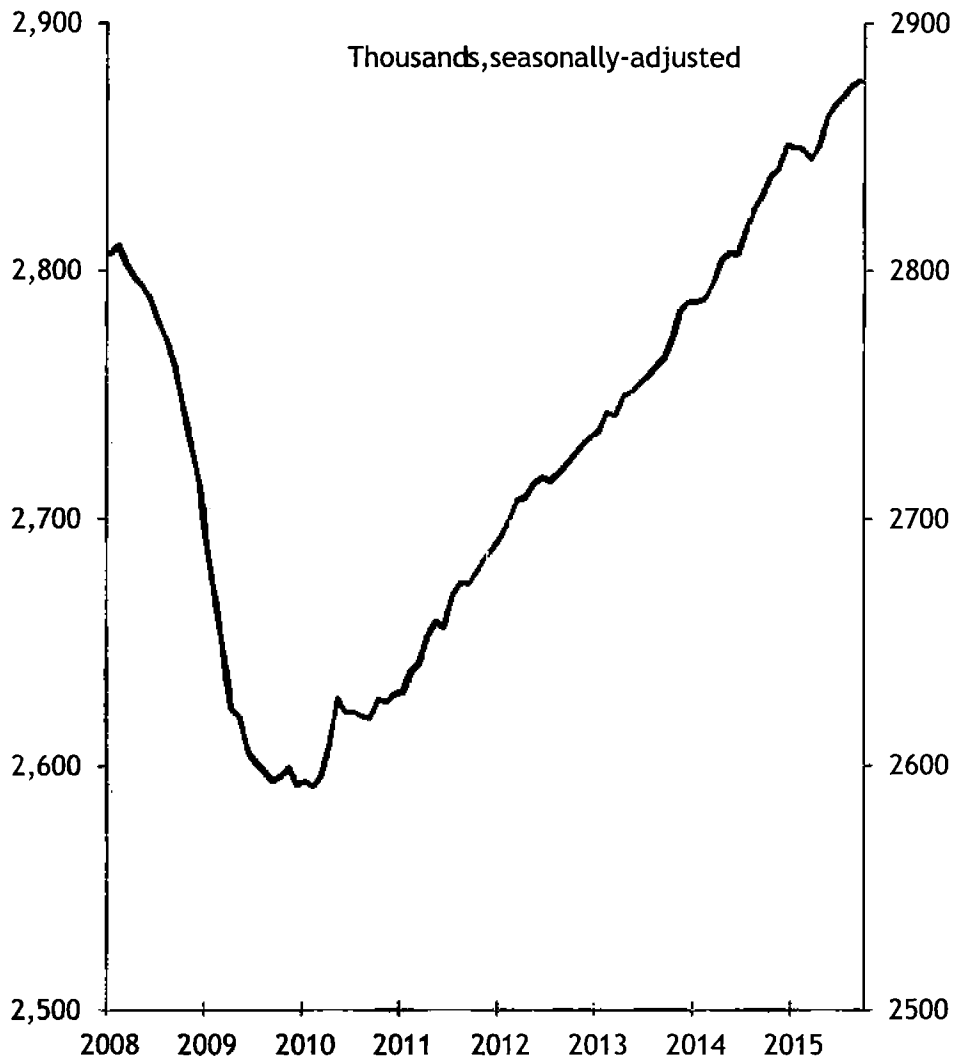


ECI data through Q3 2015,
AHE data through October 2015,

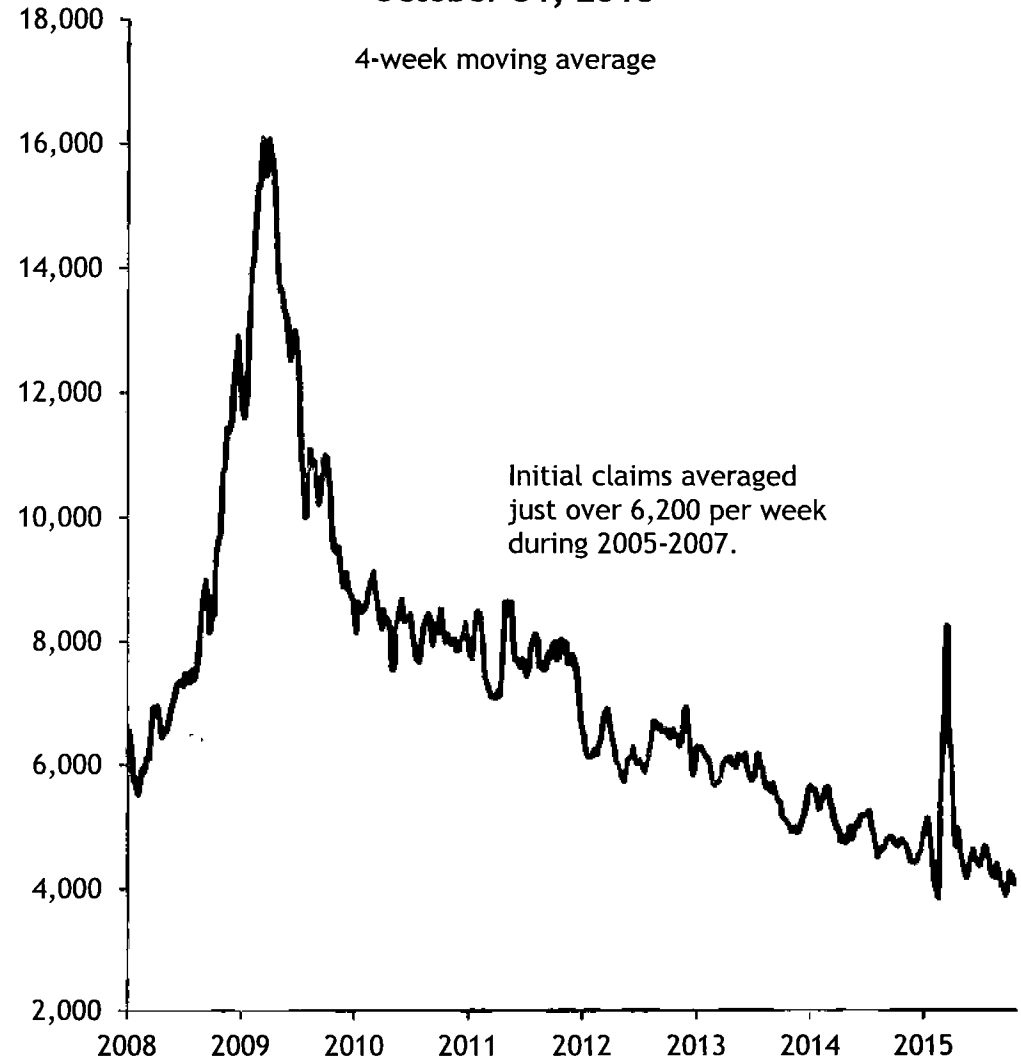
Source: Bureau of Labor Statistics, Atlanta Fed

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

Tennessee Payroll Employment September 2015

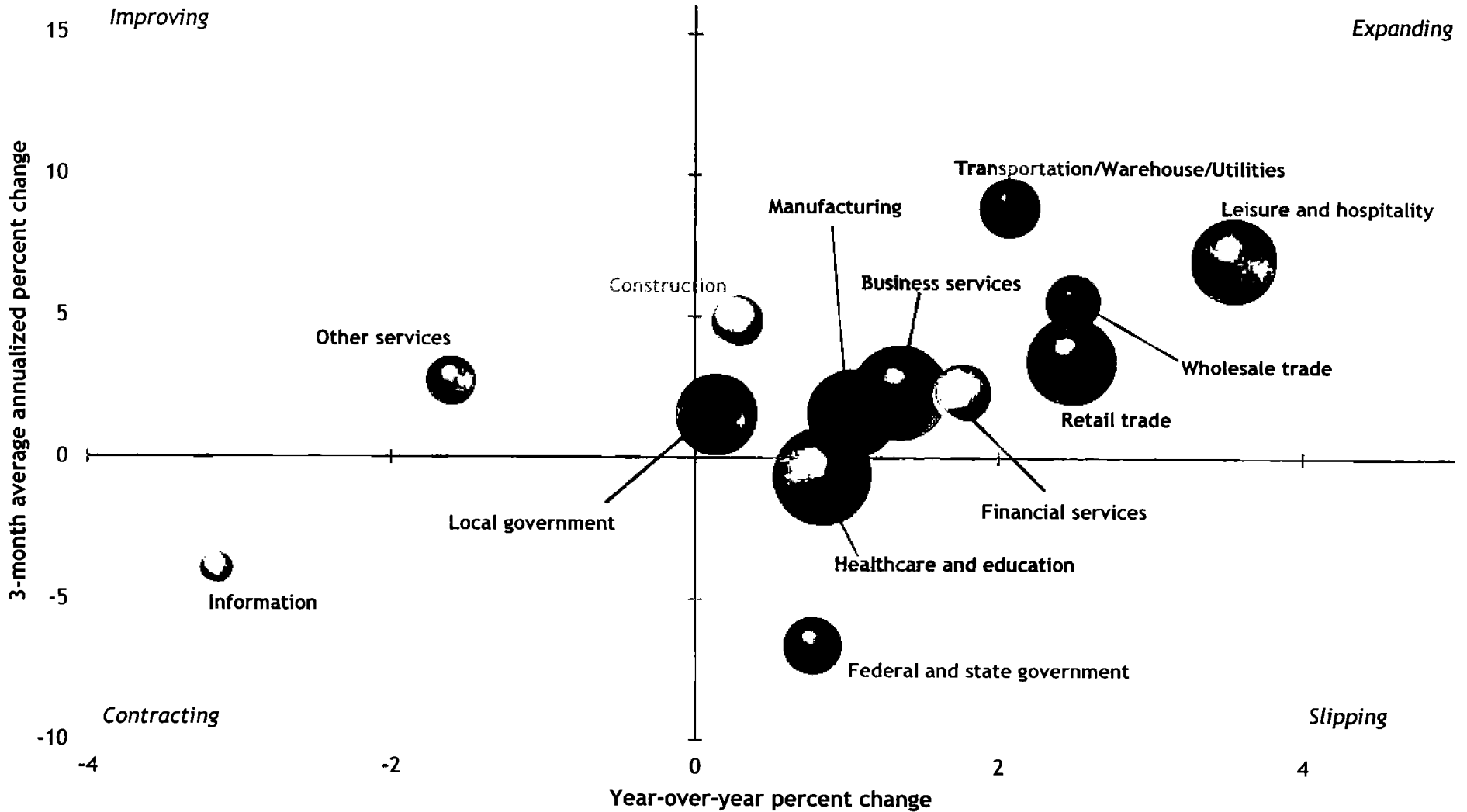


Initial Unemployment Insurance Claims: Tennessee October 31, 2015



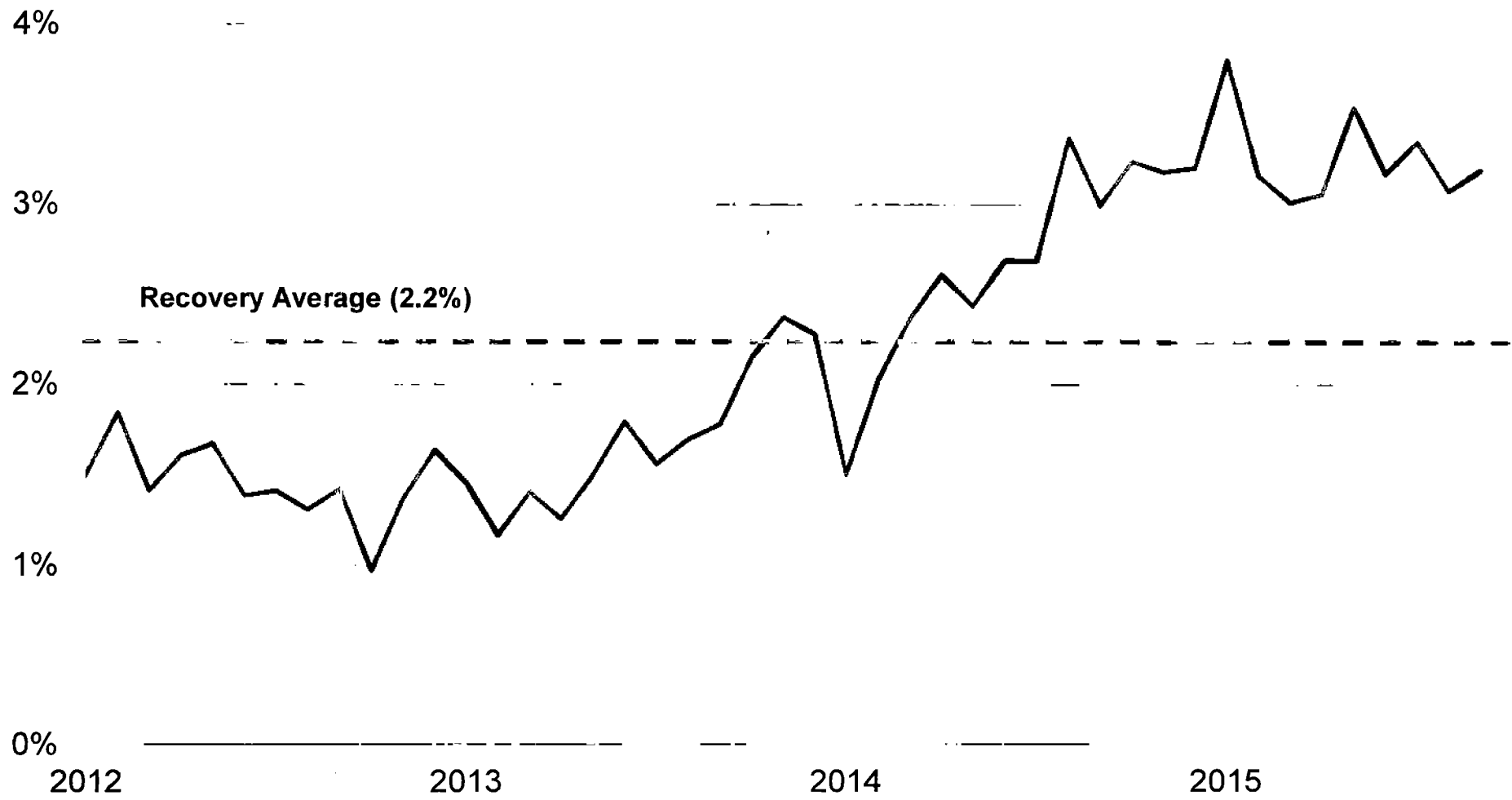
Employment growth momentum in Tennessee has been positive, with employment in most industry sectors expanding over both the past 3 and 12 months

Employment Momentum by Industry: Tennessee
September 2015



Consumer spending growth picked up throughout 2014 and has remained relatively stable in 2015, supported by strengthening household balance sheets

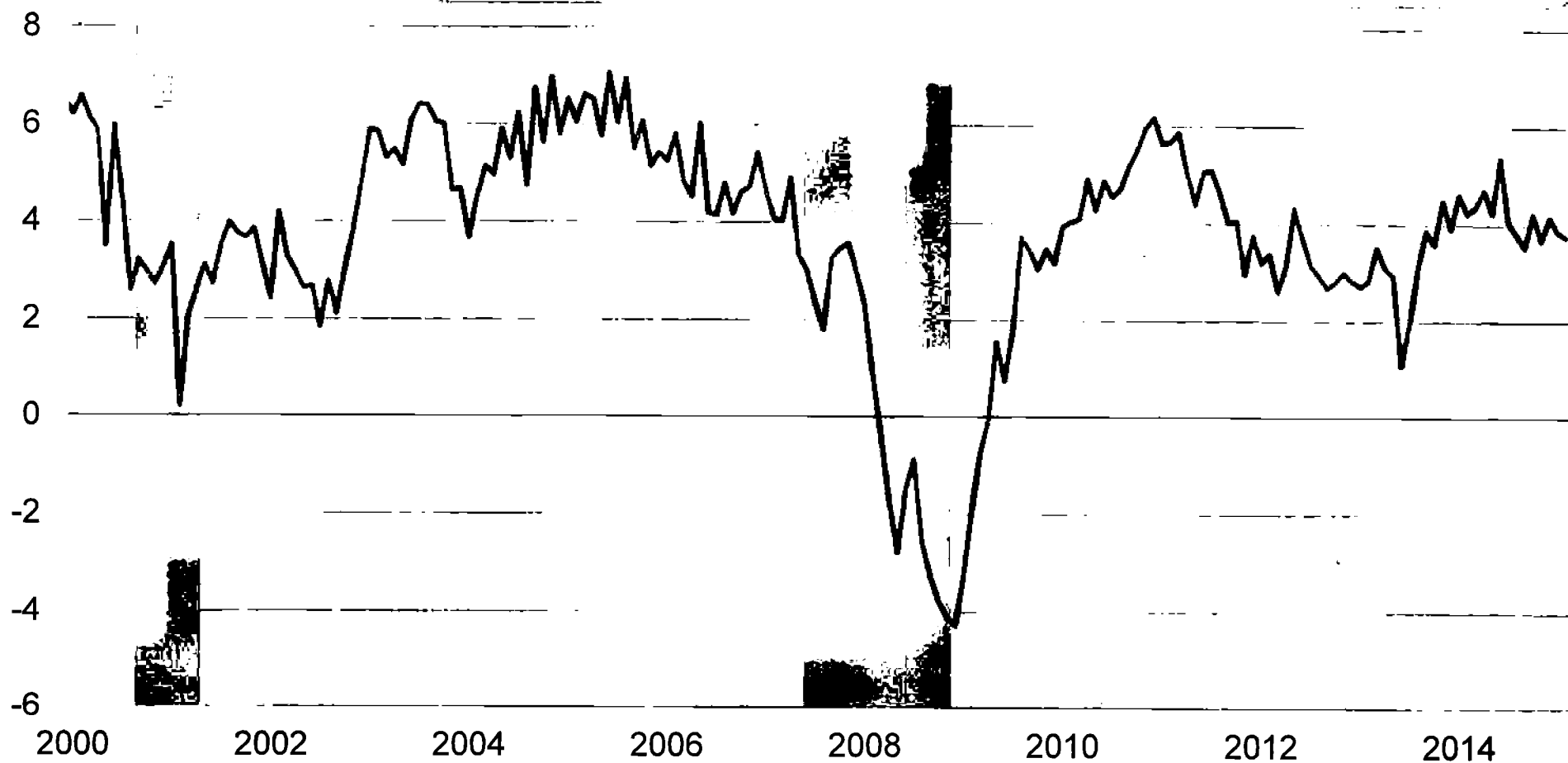
Real Personal Consumption Expenditures
year-over-year percent change, seasonally adjusted



Similarly, core retail sales growth has remained relatively stable (though somewhat muted from a historical perspective) at around 4% over the past 12 months

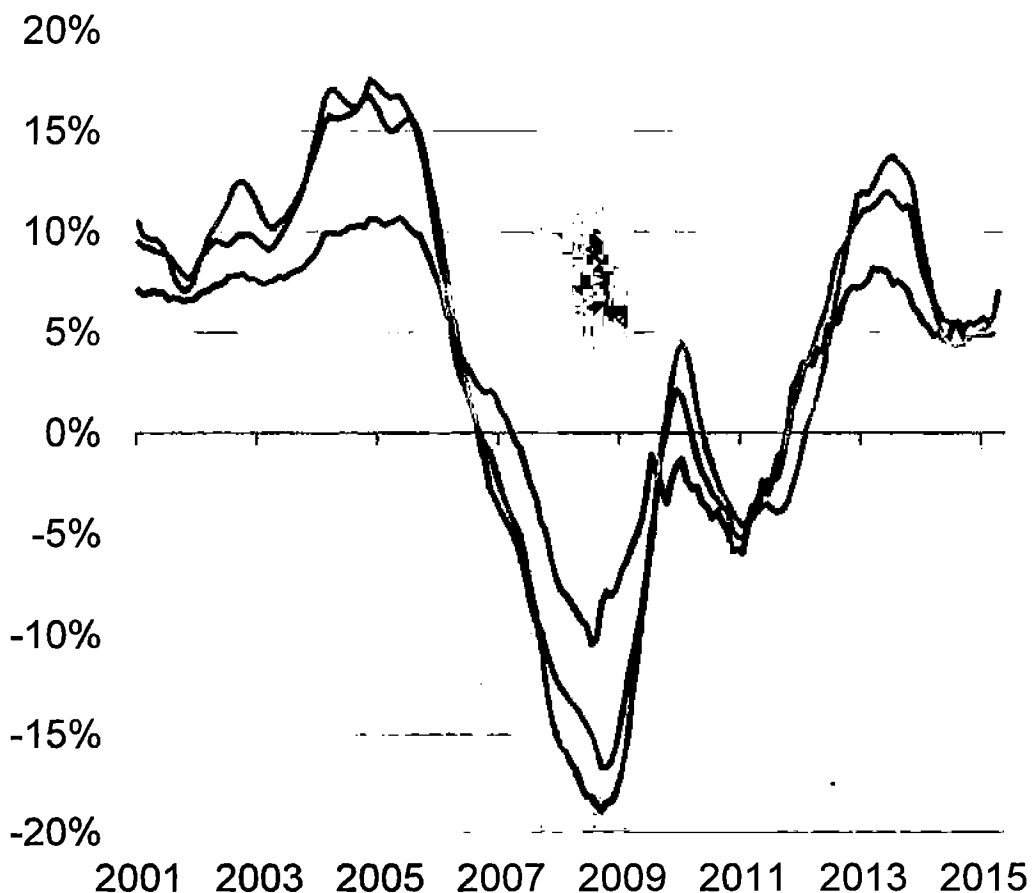
year-over-year percent change, seasonally adjusted

—Core Retail Sales (ex auto, gas & bldg materials): September 2015=3.7



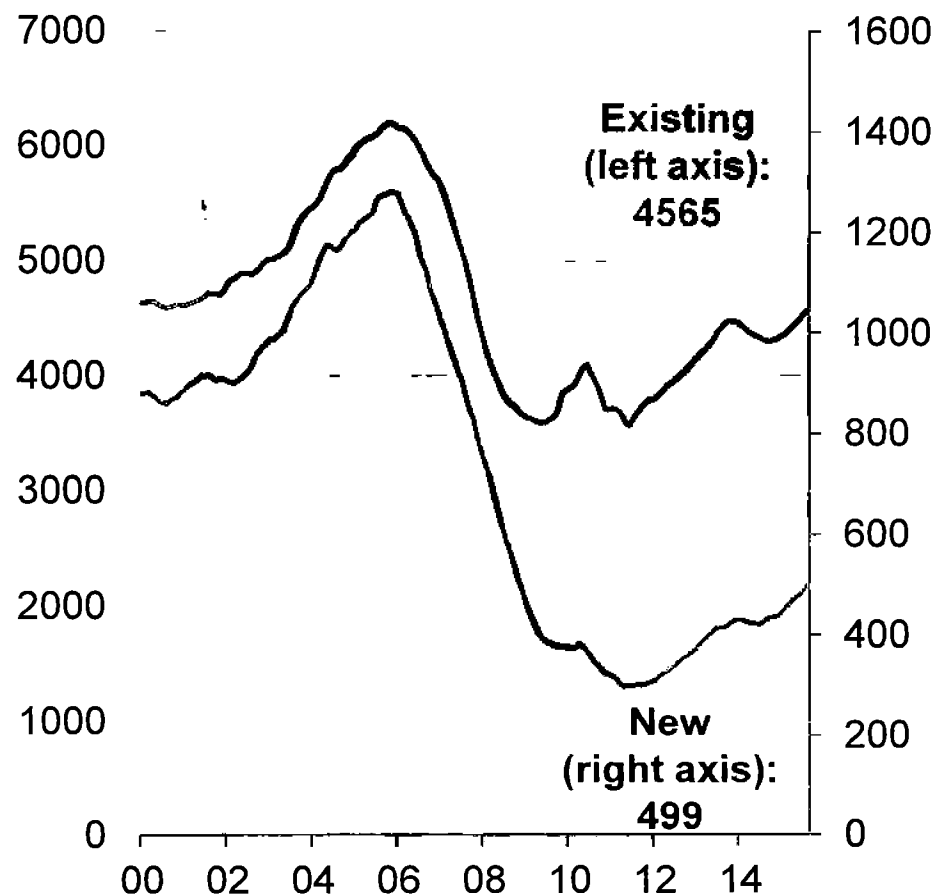
The housing market continues to expand, with prices besting inflation and sales growth topping GDP growth by significant margins

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



2001 2003 2005 2007 2009 2011 2013 2015
FHFA and S&P/Case-Shiller through August, CoreLogic through September 2015

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

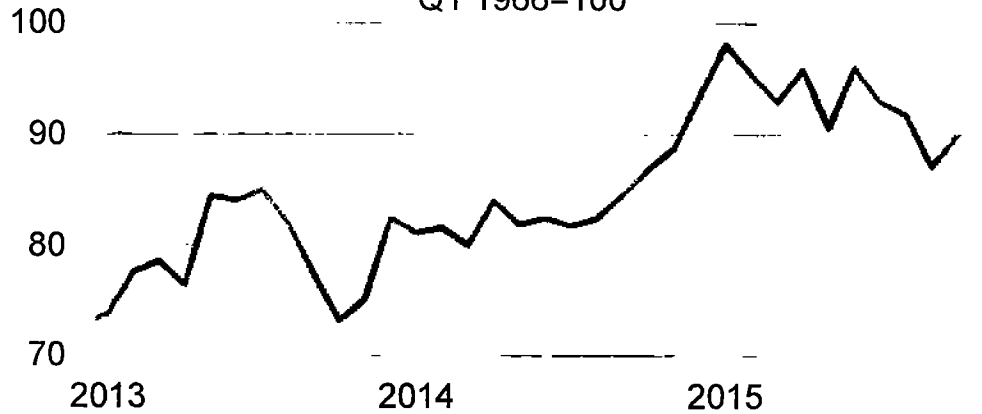


through August 2015

The fundamentals for consumer spending appear favorable

University of Michigan Consumer Sentiment Index

Q1 1966=100



Source: University of Michigan Survey of Consumers through October 2015

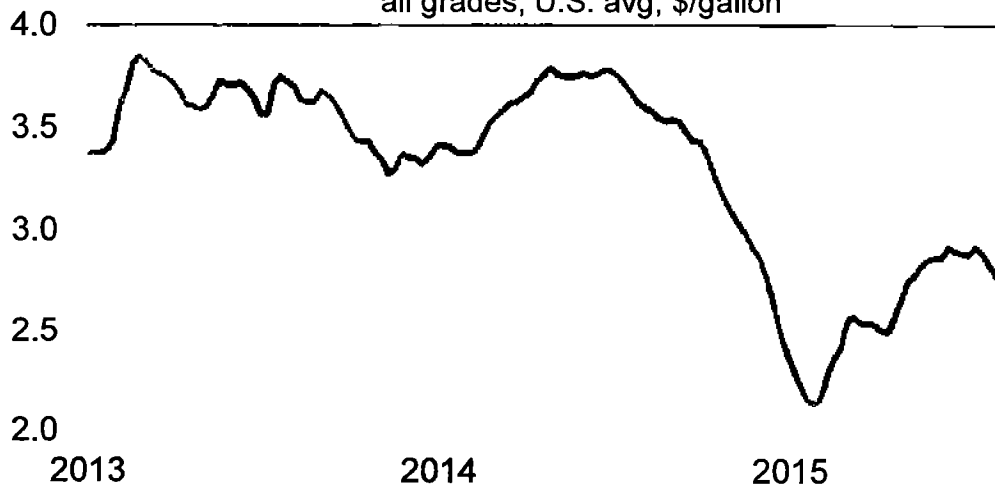
Household Wealth as a Percent of Disposable Personal Income



Source: Federal Reserve Board through Q2 2015

Retail Gasoline Price

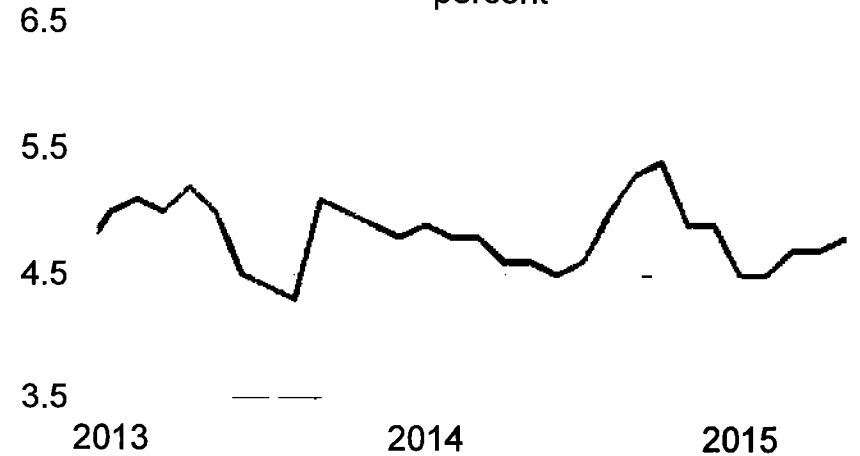
all grades, U.S. avg, \$/gallon



Source: Energy Information Administration through November 2, 2015

Personal Savings Rate

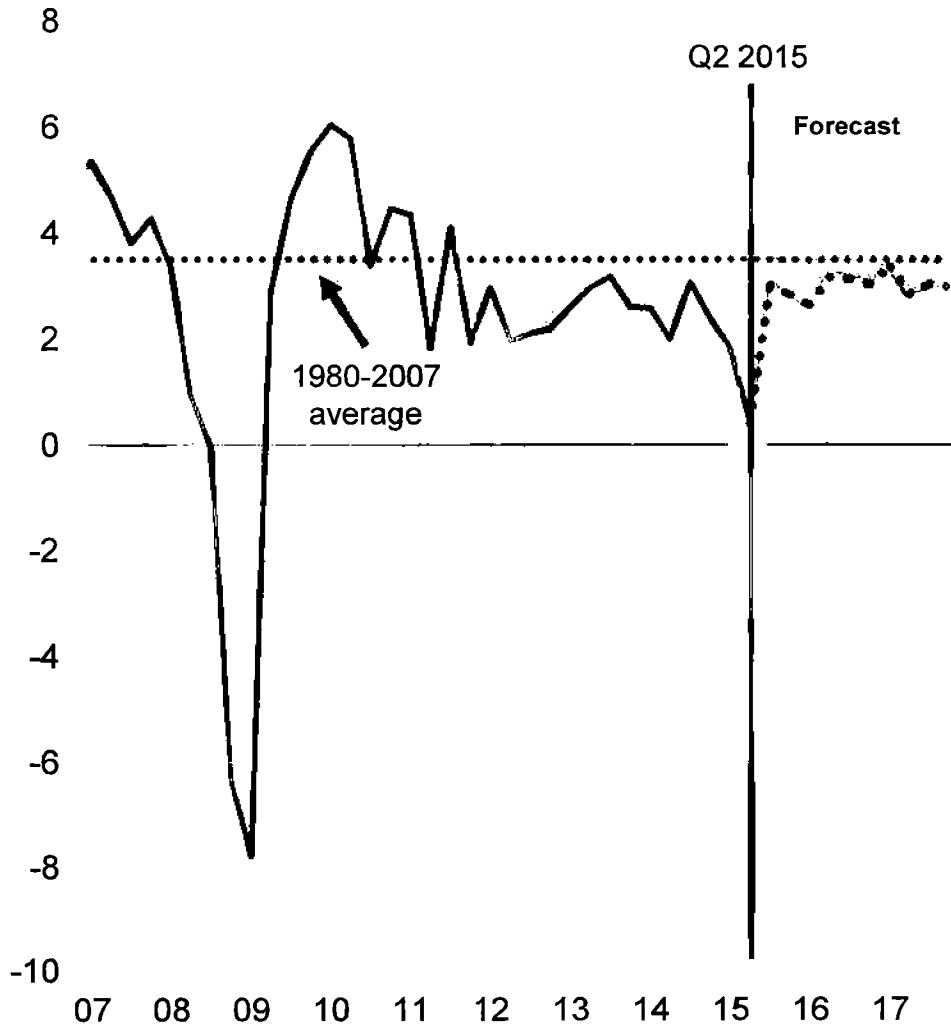
percent



Source: Bureau of Economic Analysis through September 2015

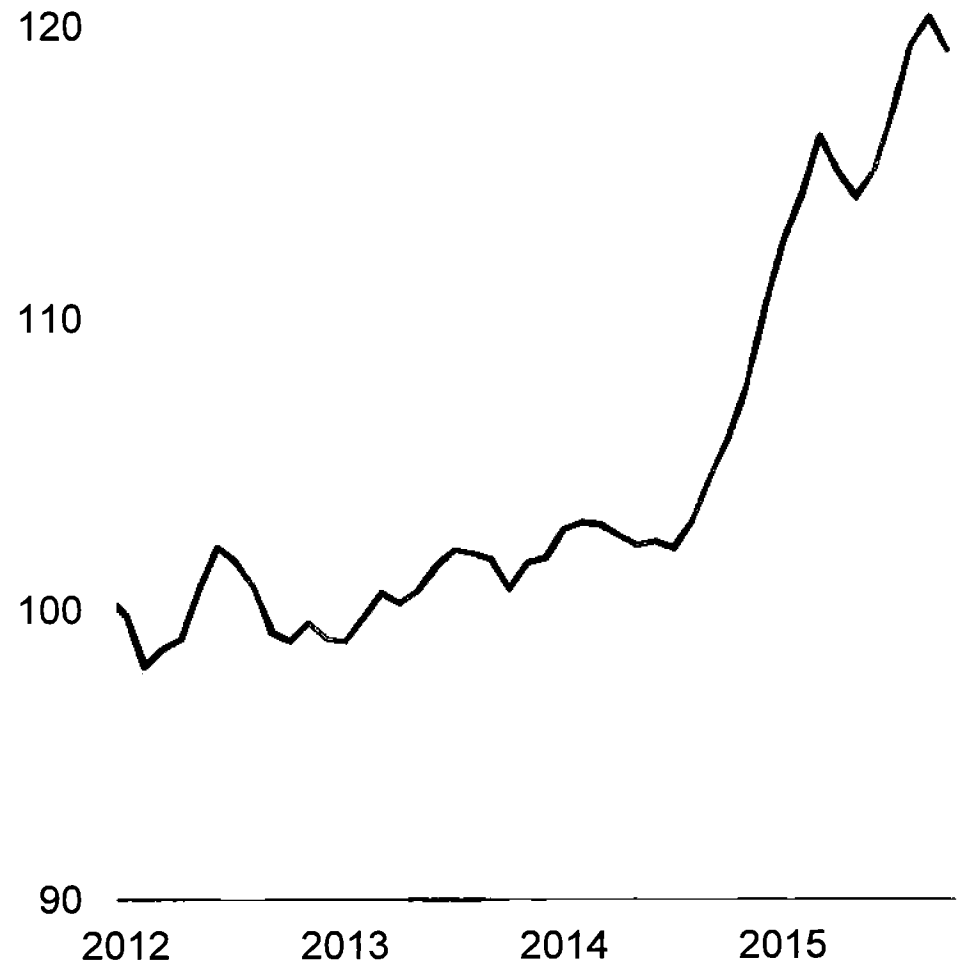
Foreign growth has slowed thus far in 2015. Forecasts generally predict that foreign GDP will accelerate but remain below trend over the medium term. Combined with the appreciation of the dollar over the past year, this does not bode well for US exports.

Broad Real Foreign Gross Domestic Product Index (2005=100)
percent change, annualized



Source: Macroeconomic Advisers

Broad Trade-Weighted Exchange Value of the U.S. Dollar
nominal, monthly, January 1997=100



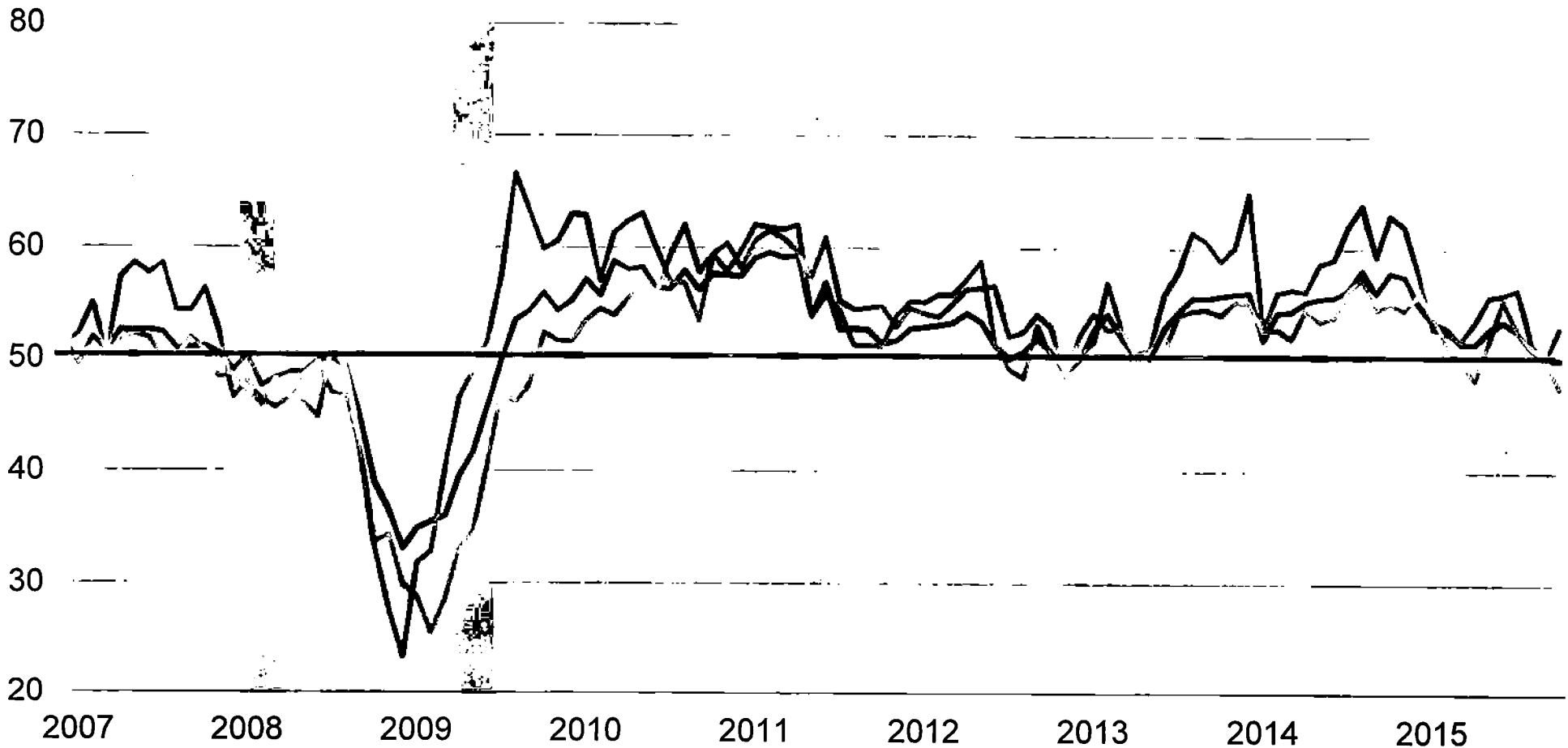
Source: Federal Reserve Board

through October 2015

Measures of US manufacturing activity appear to indicate some slowing and only moderate expansion, at best.

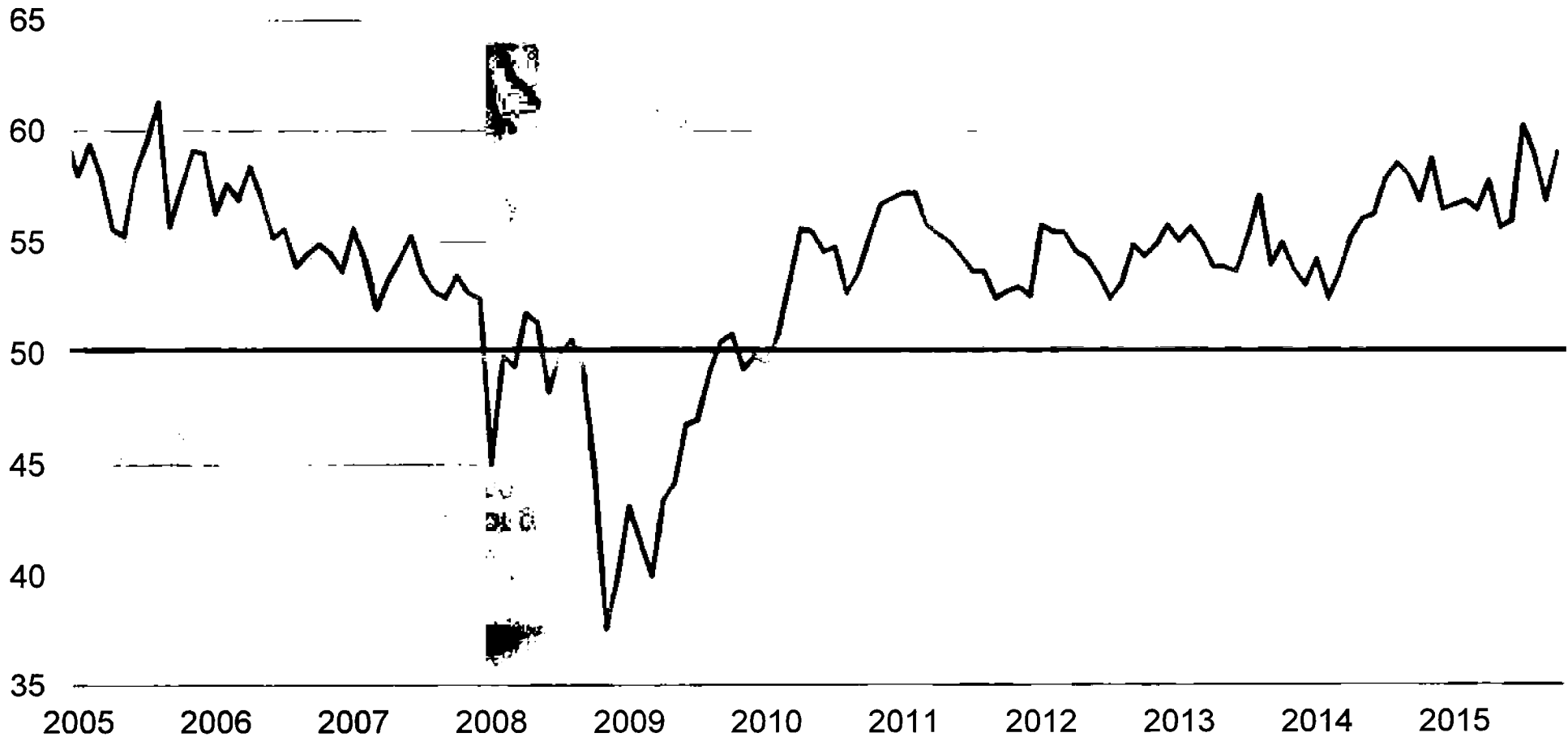
seasonally adjusted, index, 50 or greater indicates expansion, less than 50 indicates contraction

— PMI Composite Index: October 2015= 50.1
— New Orders Index: October 2015= 52.9
— Employment Index: October 2015= 47.6



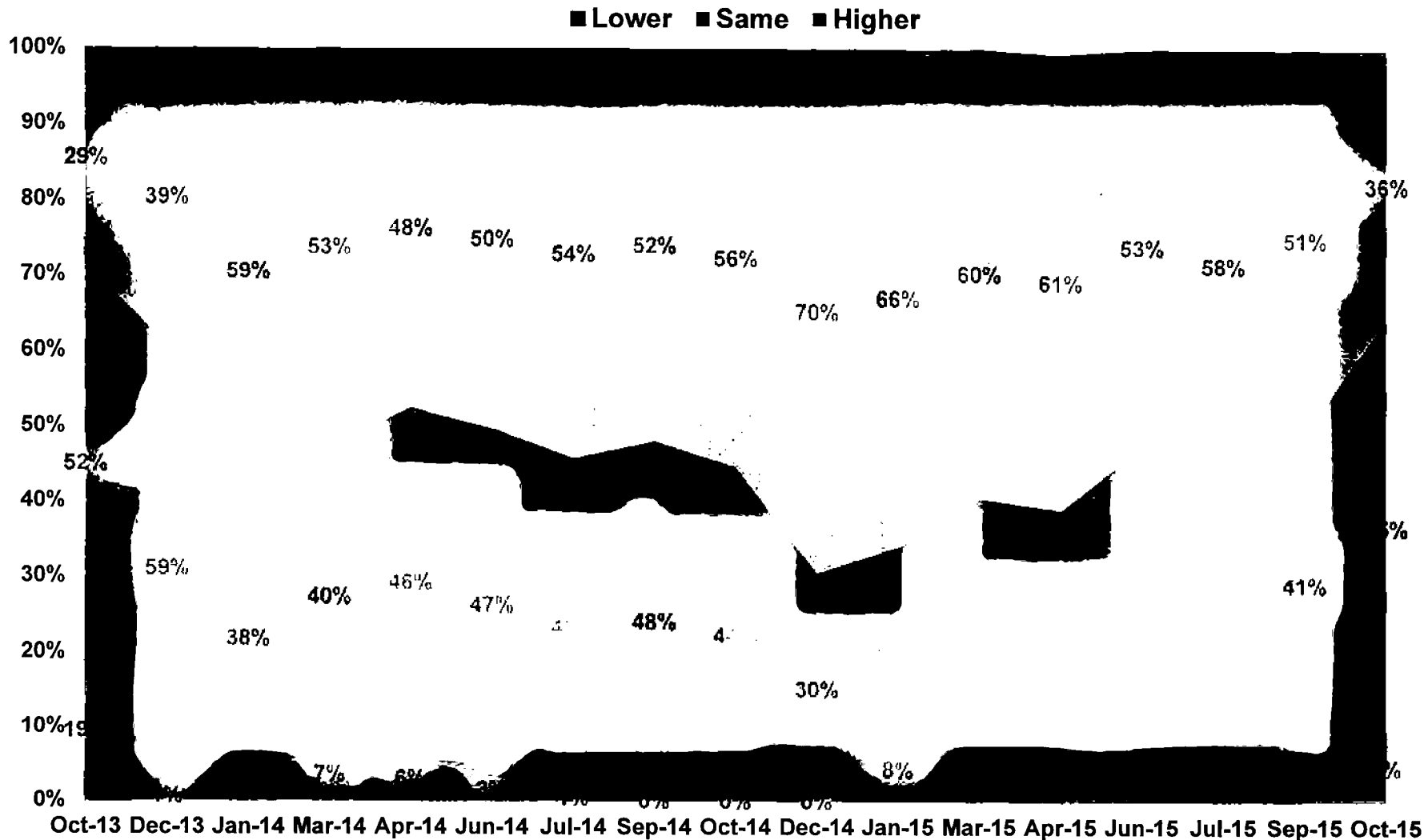
However, the services sector, which makes up a much larger portion of the US economy (80%), appears to be healthy and expanding.

ISM Non-Manufacturing Index
seasonally adjusted, index, 50 or greater indicates
expansion, less than 50 indicates contraction



Our directors' optimism with respect to the short-term outlook for their businesses has been steadily waning over the past year, with a shift in the majority at our most recent meeting from those expecting higher growth to those expecting the same level of growth.

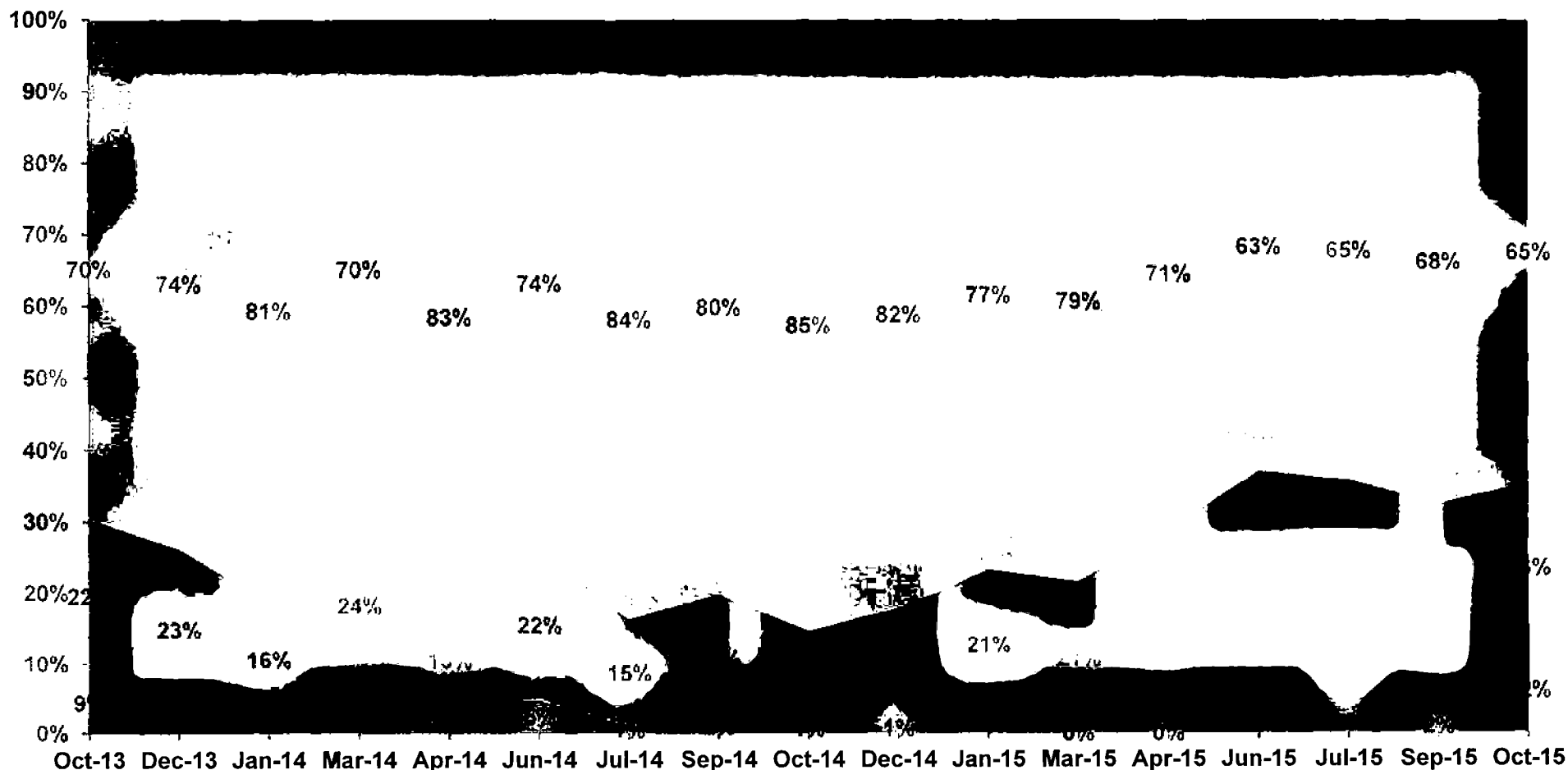
What is your outlook for the rate of growth in your business over the next 3 to 6 months compared to current rates?



While some slippage has also occurred with respect to directors' medium-term outlooks for the rate of growth in their businesses, approximately two thirds continue to expect 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?

■ Lower ■ Same ■ Higher

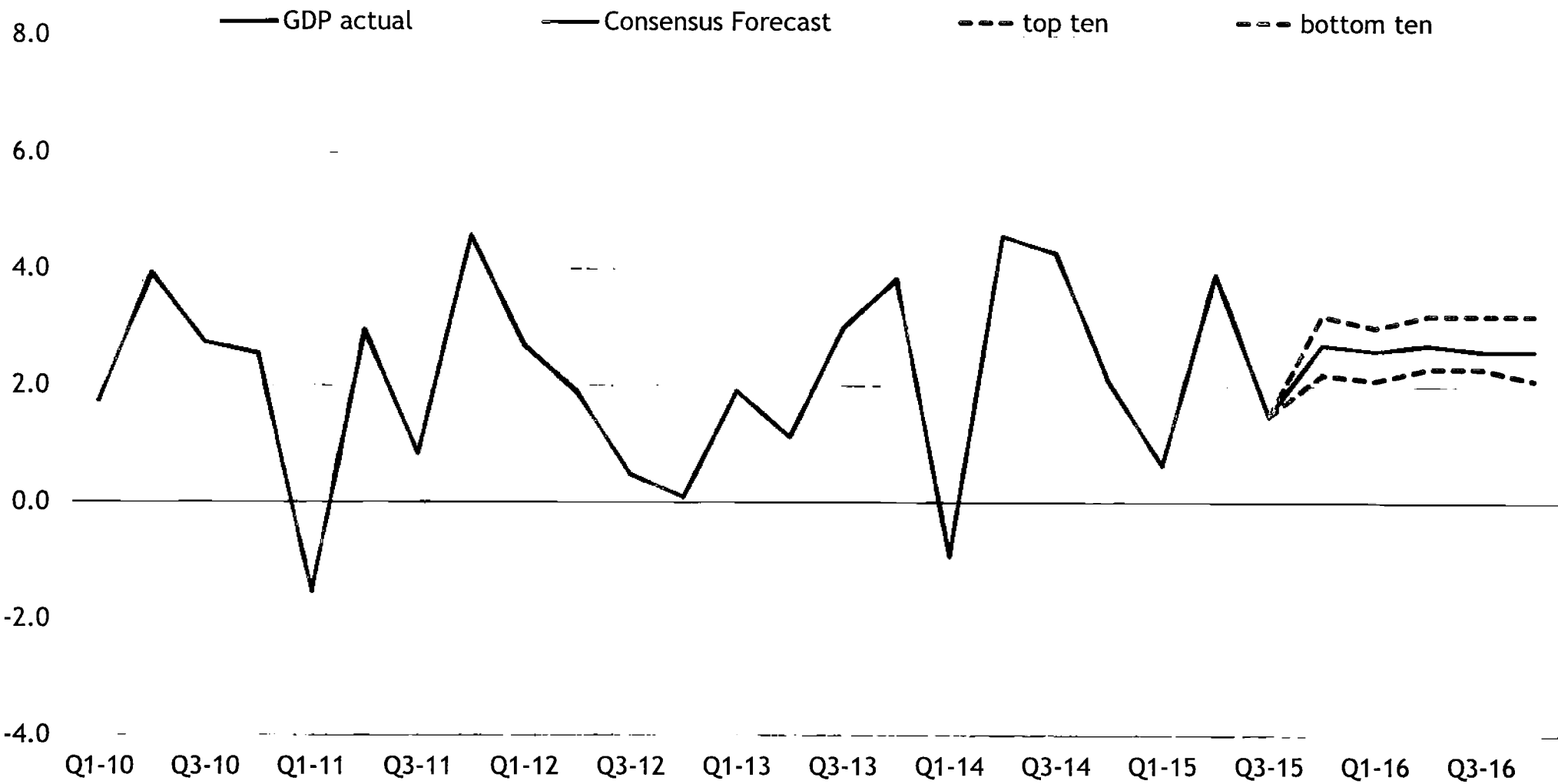


Source: FRB Atlanta

Private economists expect GDP growth to expand at roughly 2.5% through the end of next year

Blue Chip Real GDP Forecast

Annualized quarterly percent change



**What we're hearing anecdotally from Tennessee business contacts:
Increasing 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 weak global demand are dampening 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.**
- **Hiring activity appears to be strengthening, though trend varies by industry, skill and geography**



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Tennessee State Funding Board

November 13, 2015

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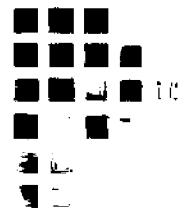
Regional Executive - Tennessee

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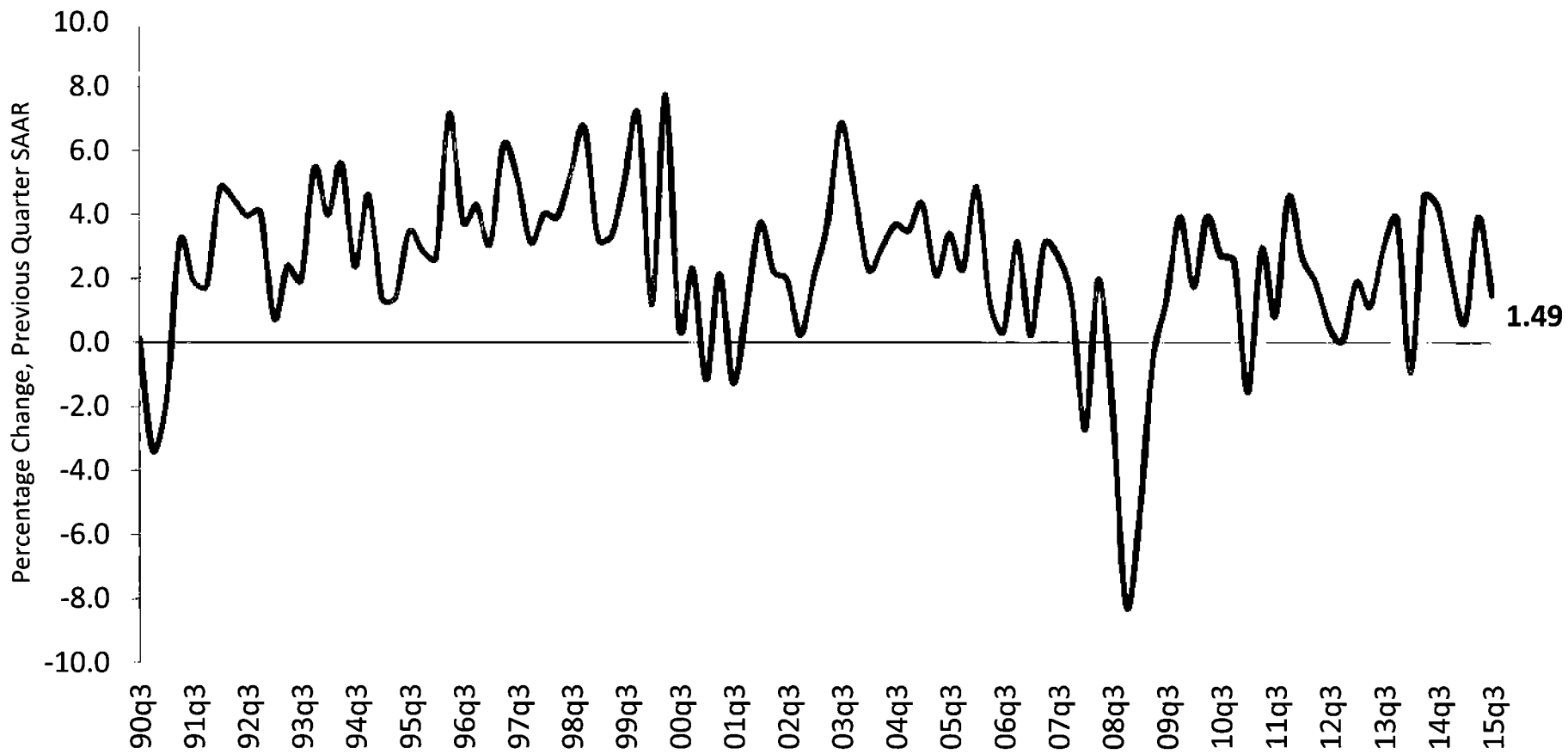
Tennessee Economic Outlook and Tax Revenues

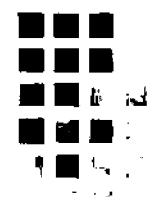
**William F. Fox, Director
Center for Business and Economic Research
The University of Tennessee, Knoxville
November 13, 2015**



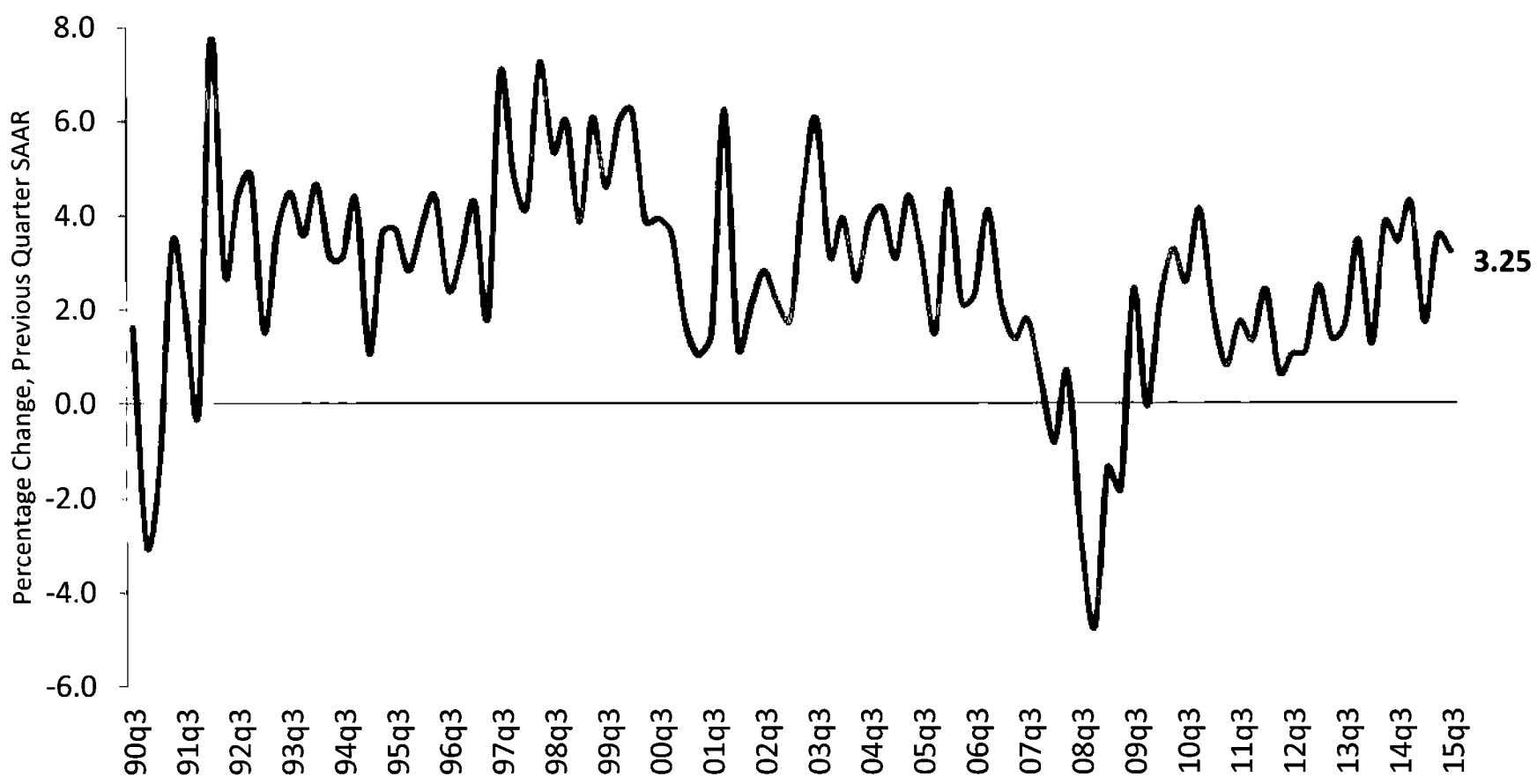


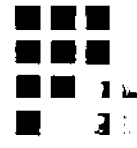
Growth in Quarterly Real Gross Domestic Product (chained 2009 dollars)



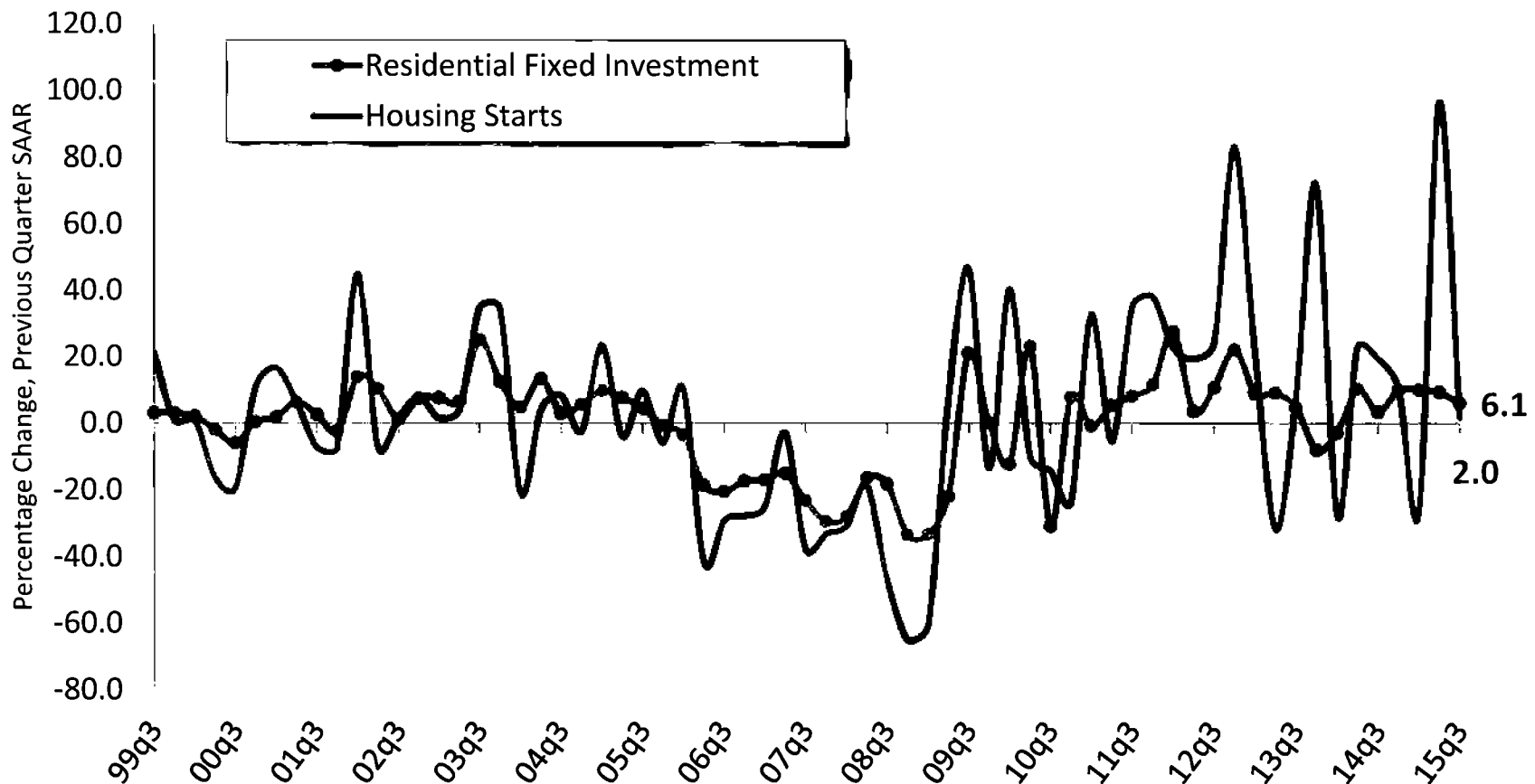


Growth in Quarterly Real Personal Consumption Expenditures (chained 2009 dollars)

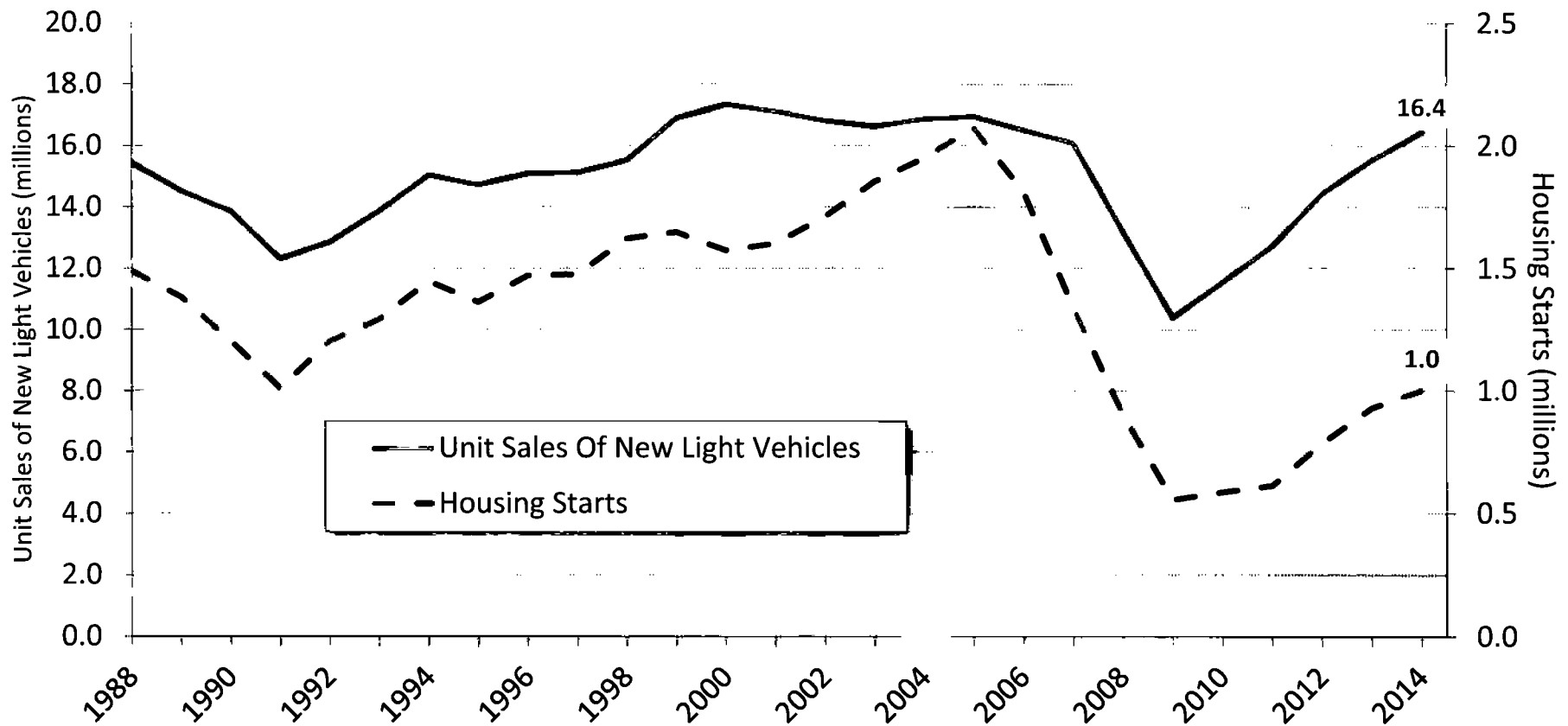


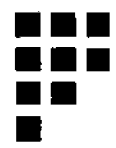


Growth in Quarterly Real Private Residential Fixed Investment and Housing Starts

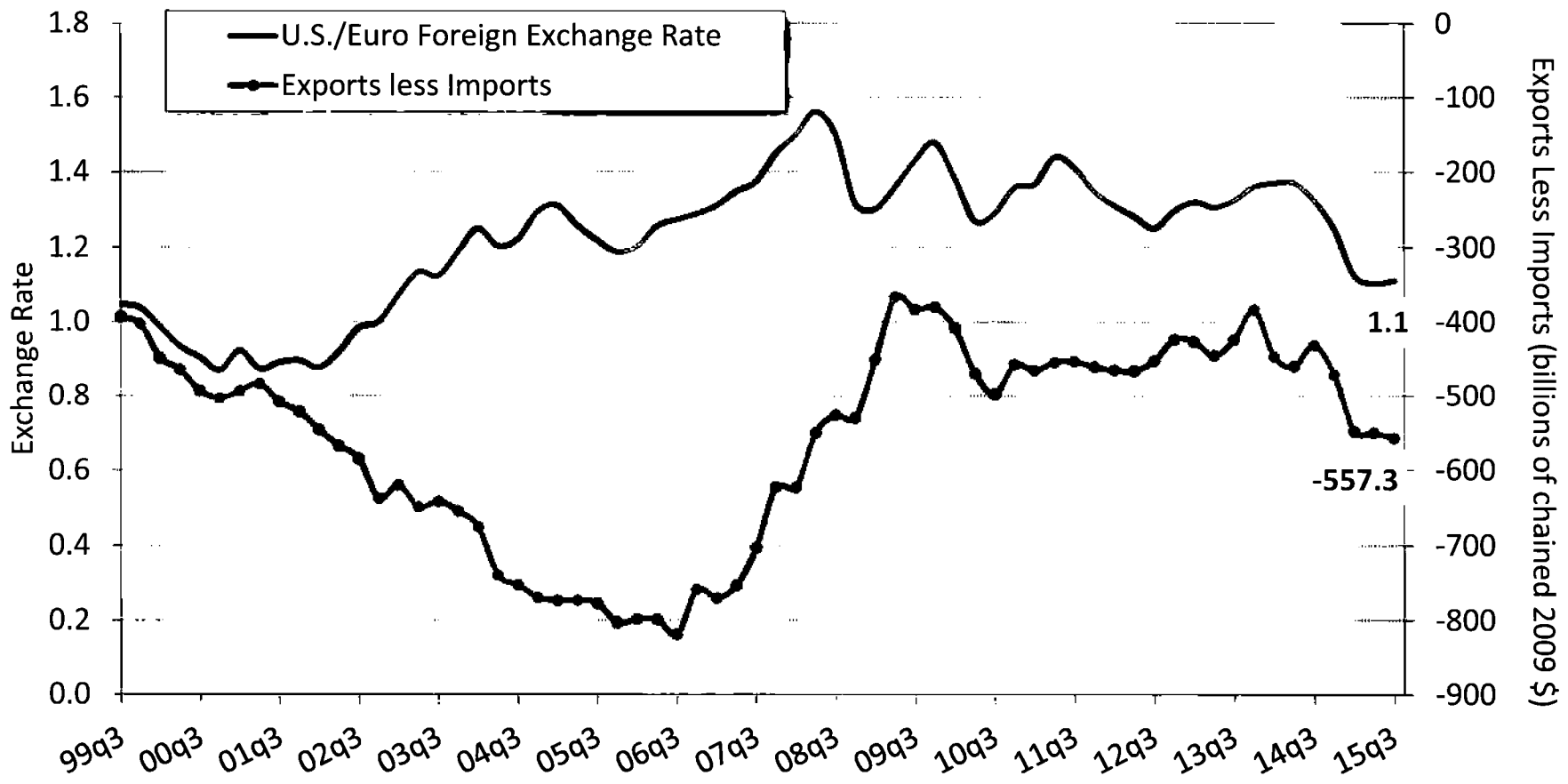


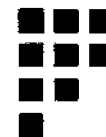
Unit Sales of New Light Vehicles and Housing Starts



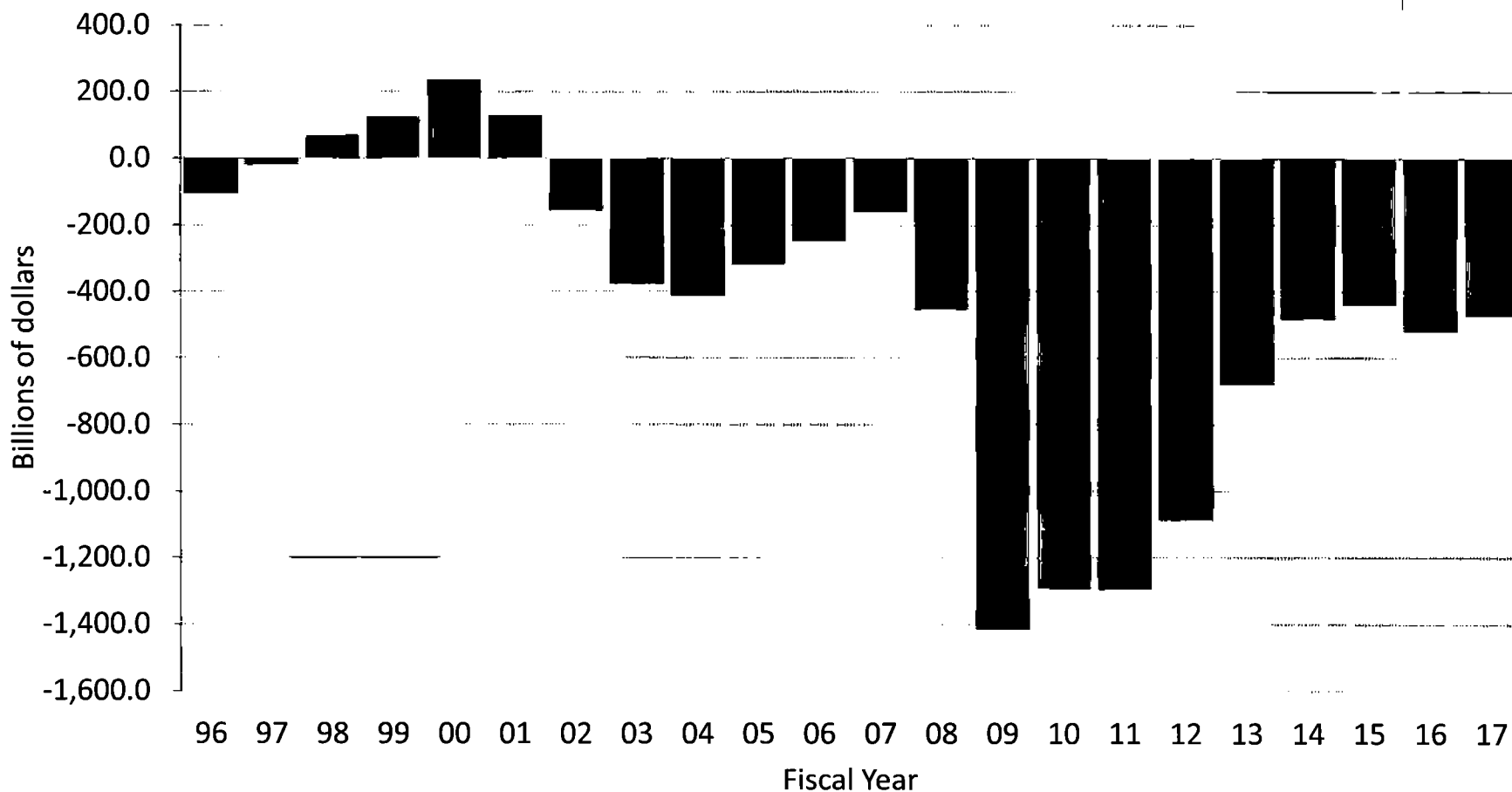


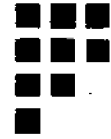
U.S./Euro Foreign Exchange Rate and Real Exports Less Imports



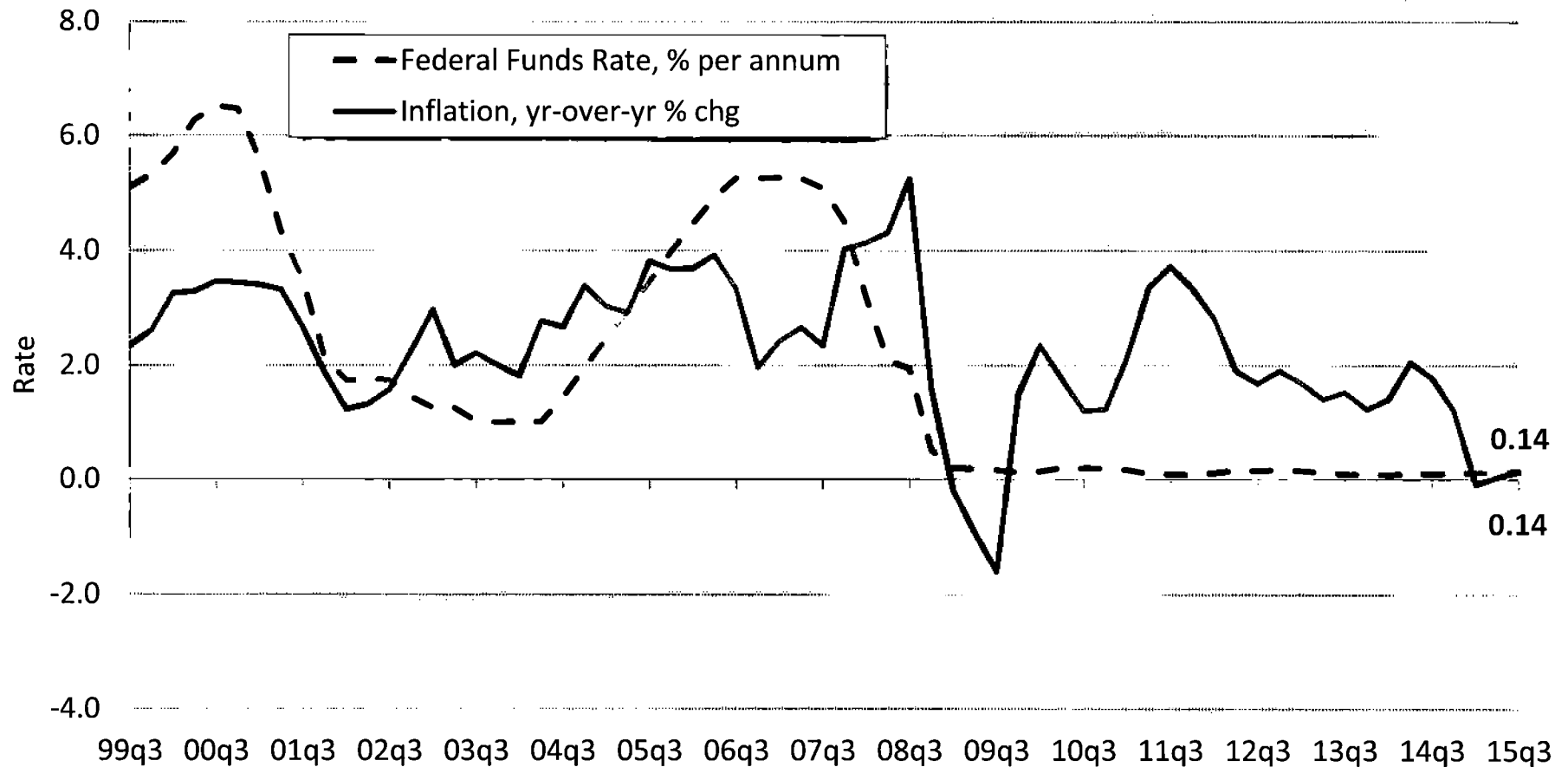


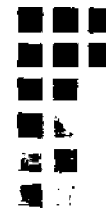
Unified Federal Budget Surplus



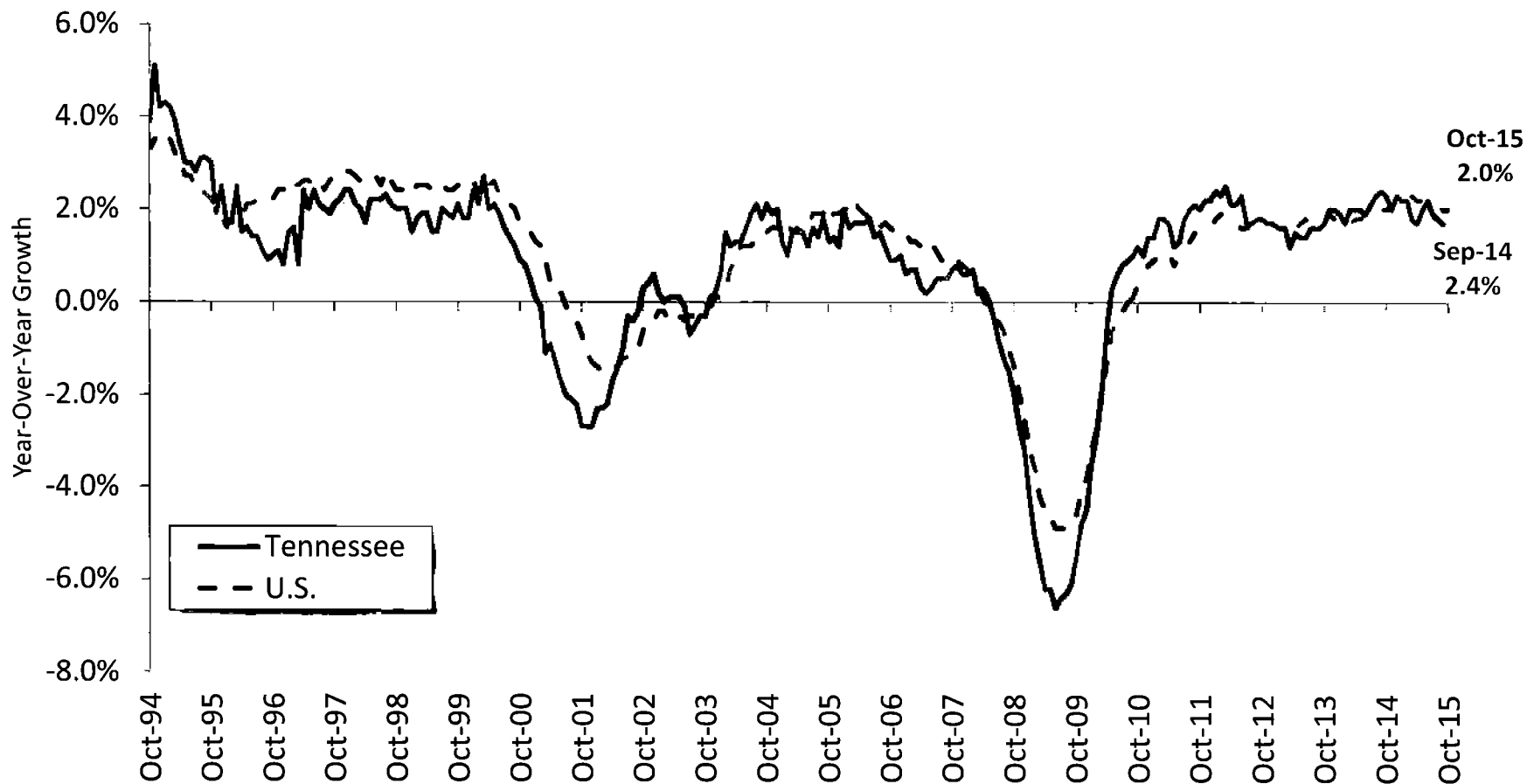


Interest Rates and Inflation

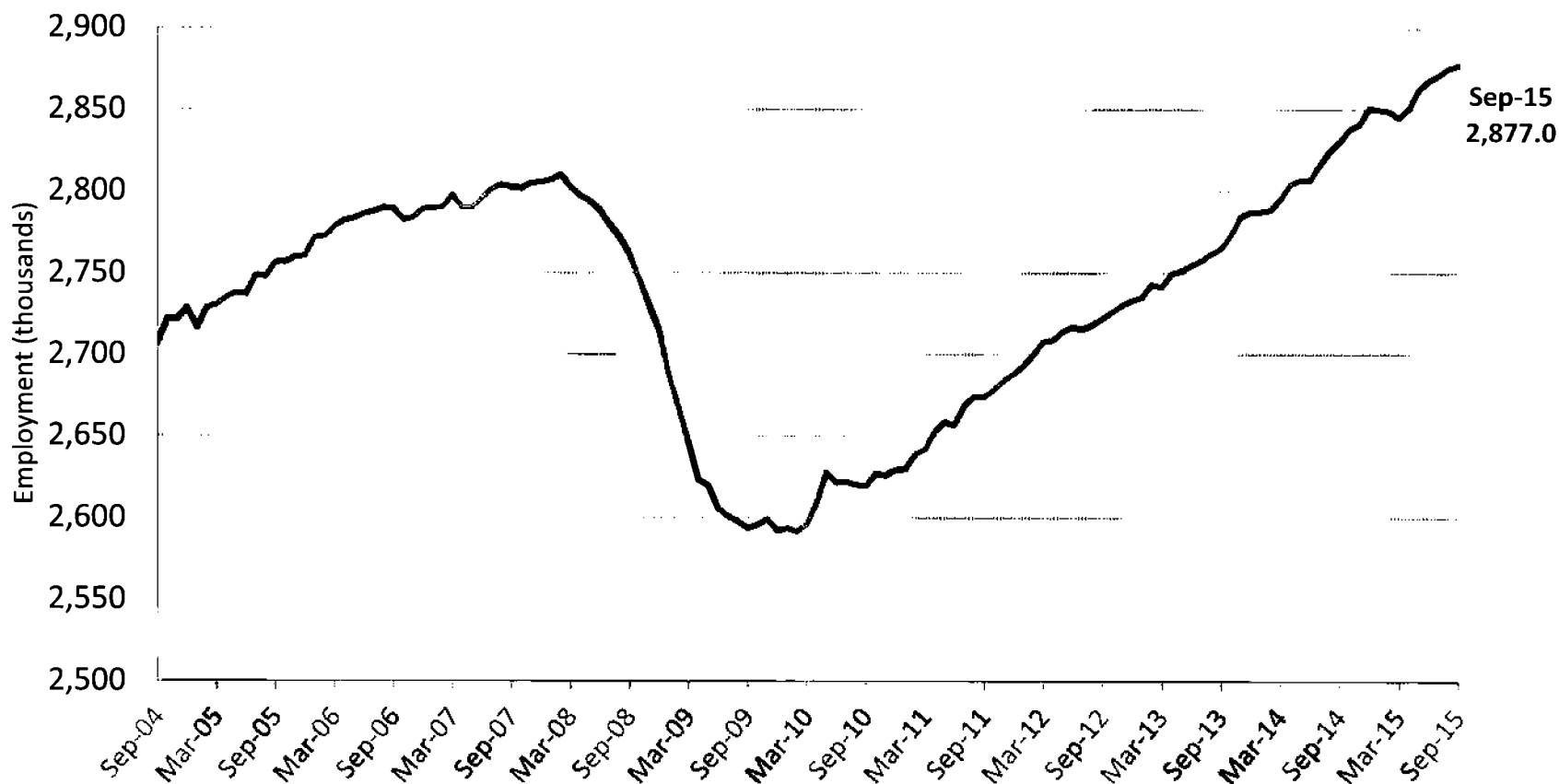
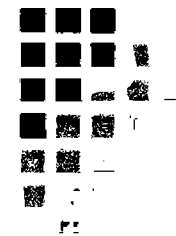




Tennessee and U.S. Nonfarm Job Growth (year-over-year growth)

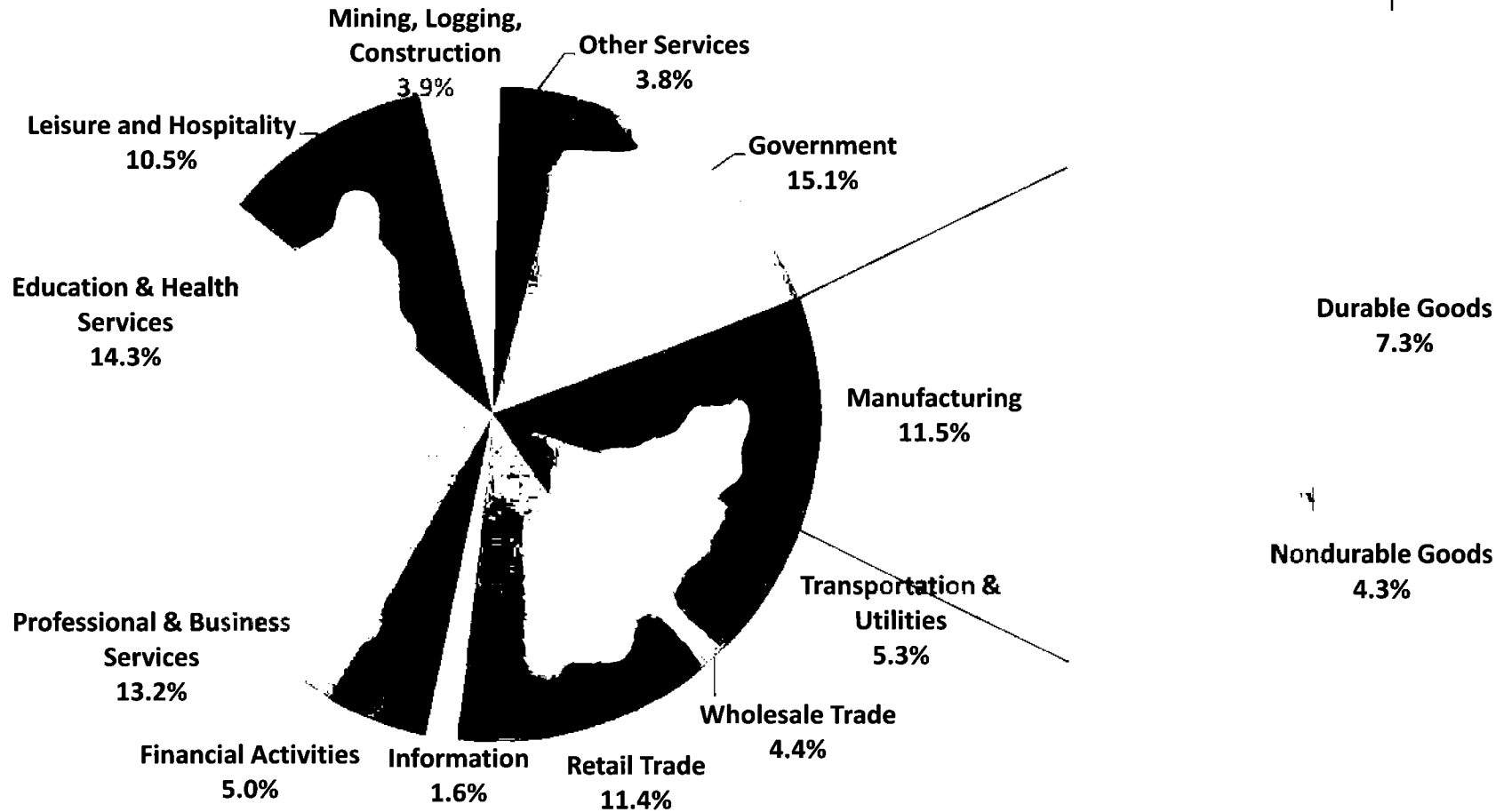


Tennessee Monthly Nonfarm Jobs, 2004–2015 (seasonally adjusted)



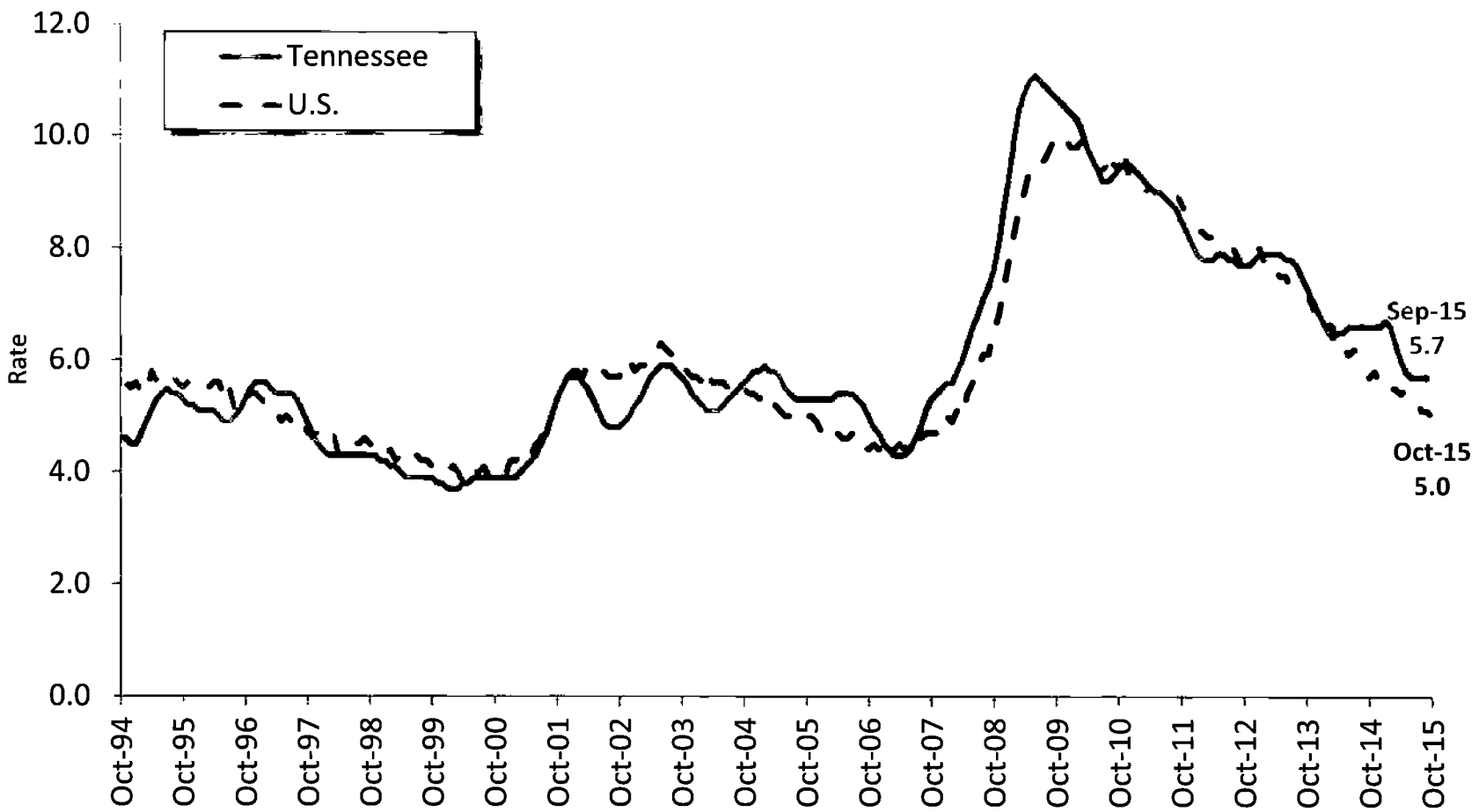


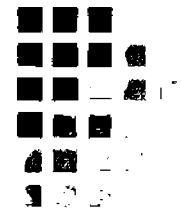
Tennessee Employment Distribution by Industry, 2014



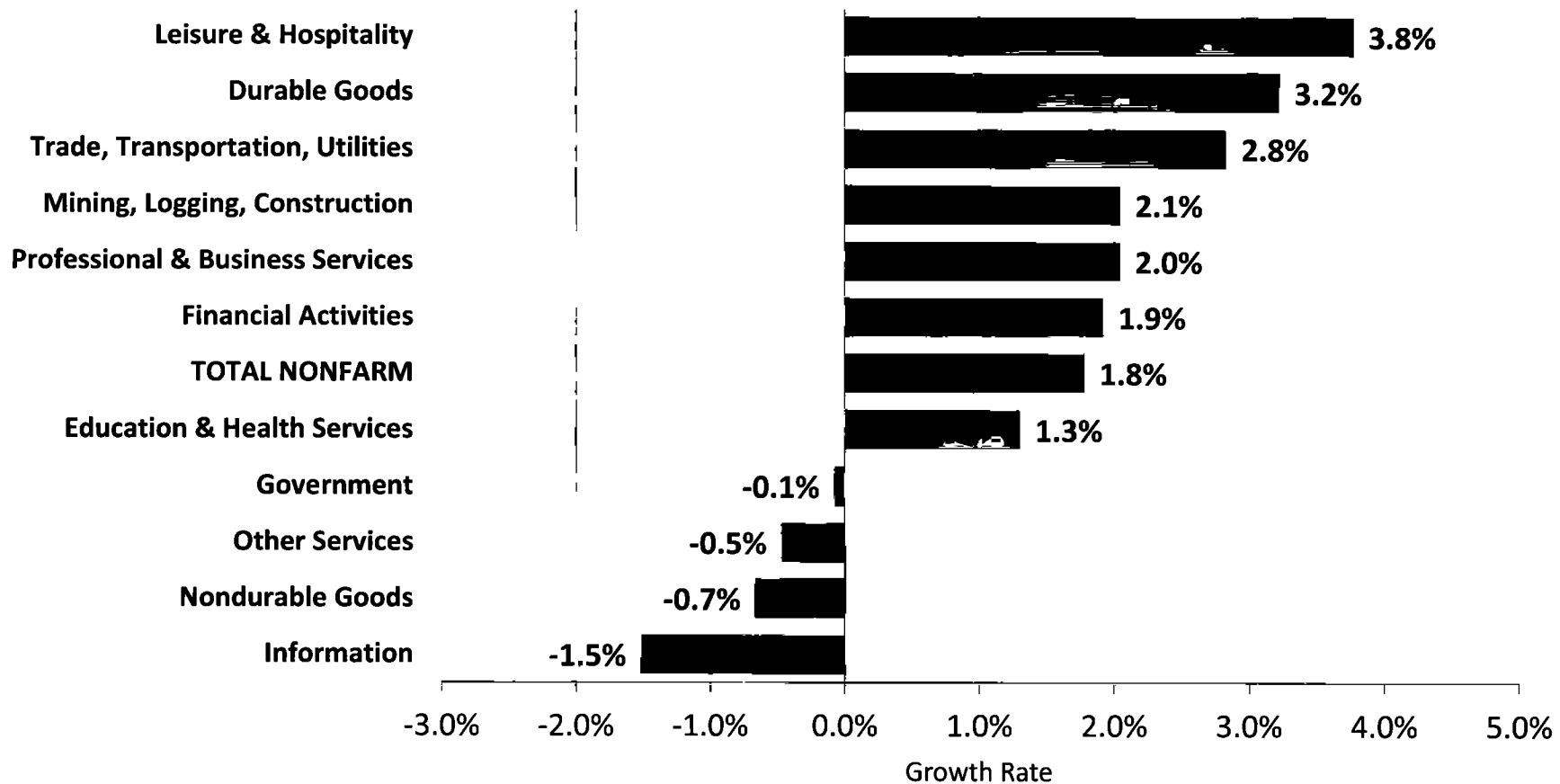


Tennessee and U.S. Unemployment Rate (seasonally adjusted)



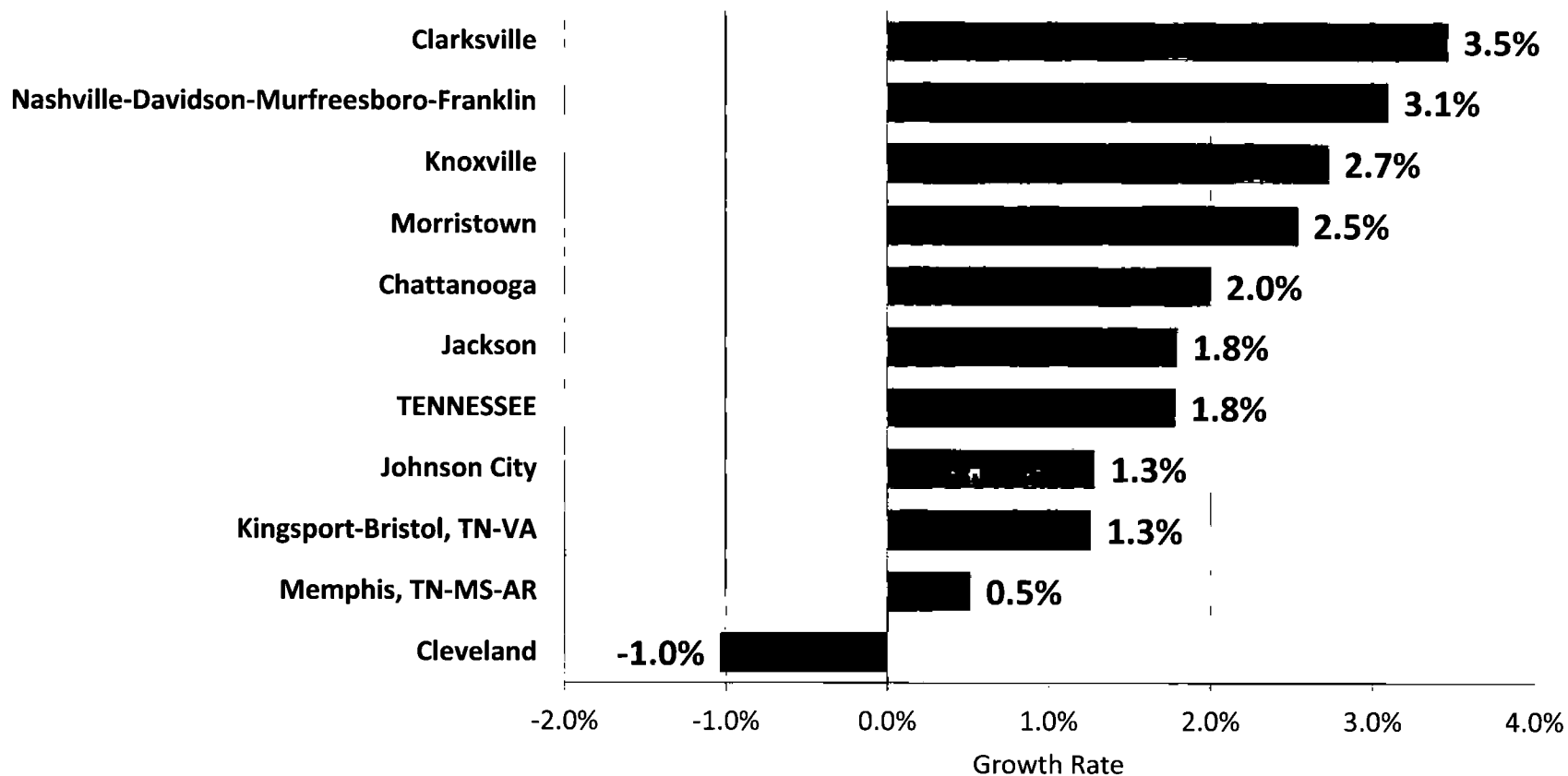


Tennessee Job Growth by Sector (Quarter Ending Sept. 2014 to Sept. 2015)

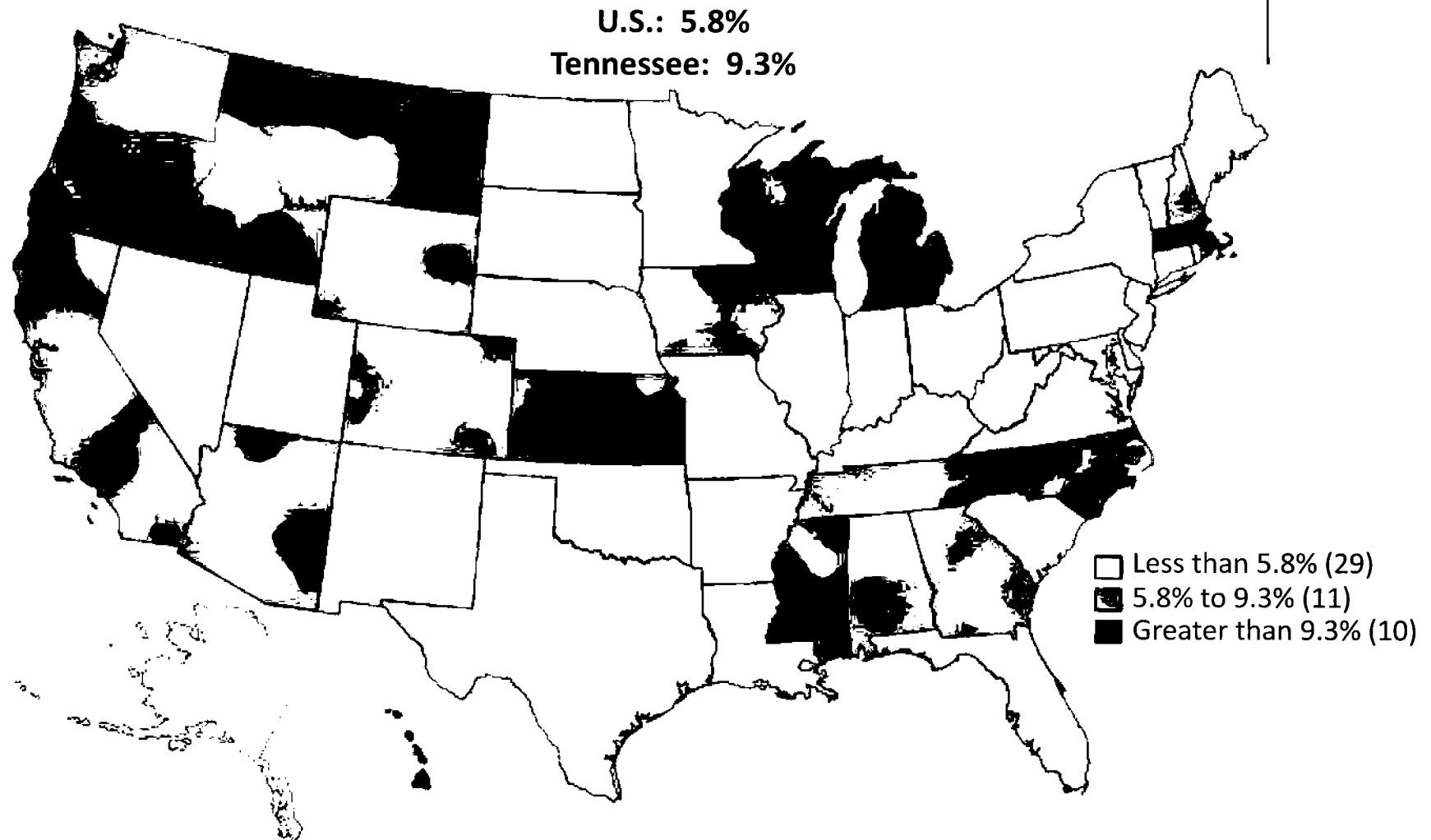




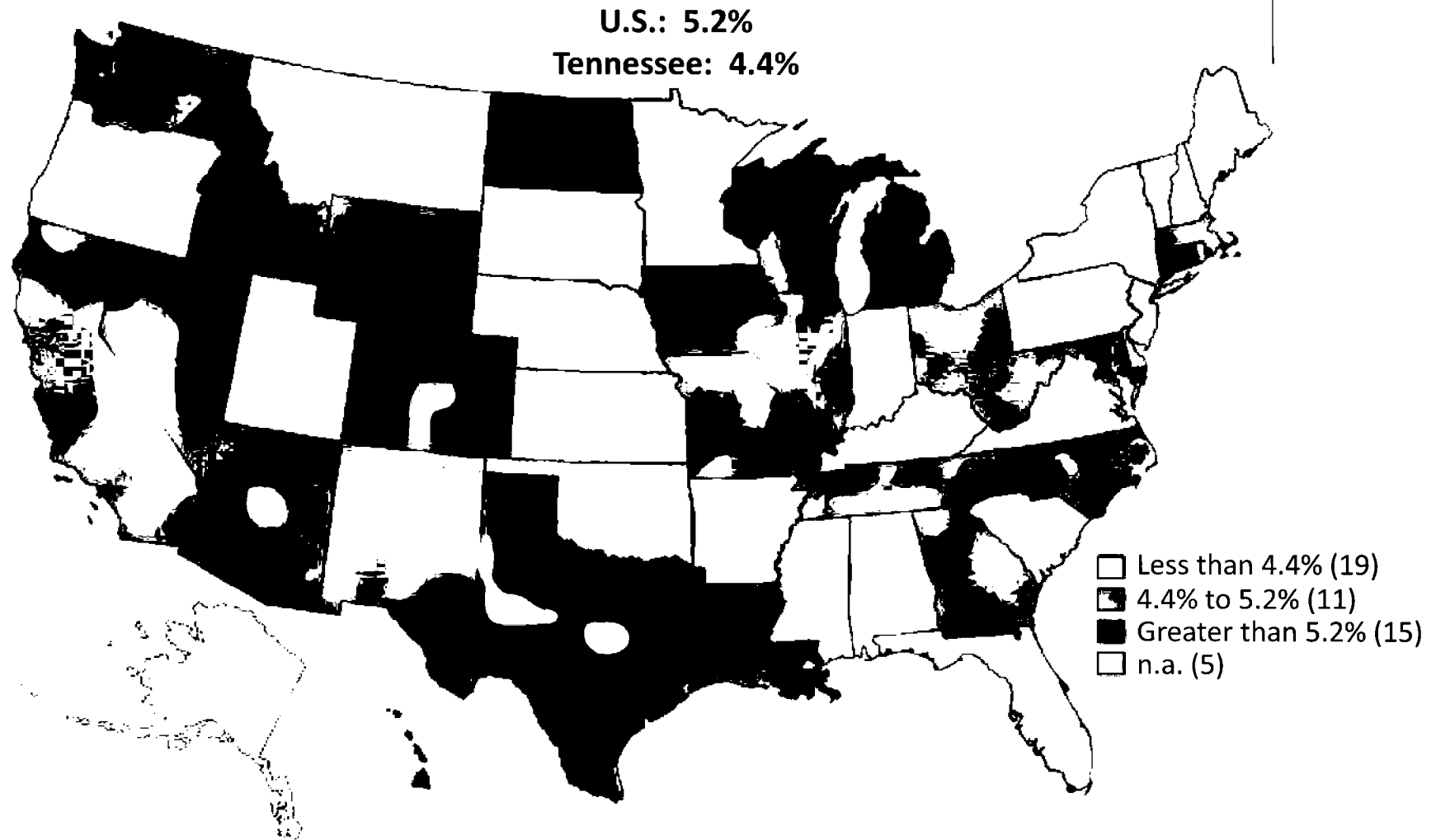
Nonfarm Employment Growth, MSAs (Quarter Ending Sept. 2014 to Sept. 2015)



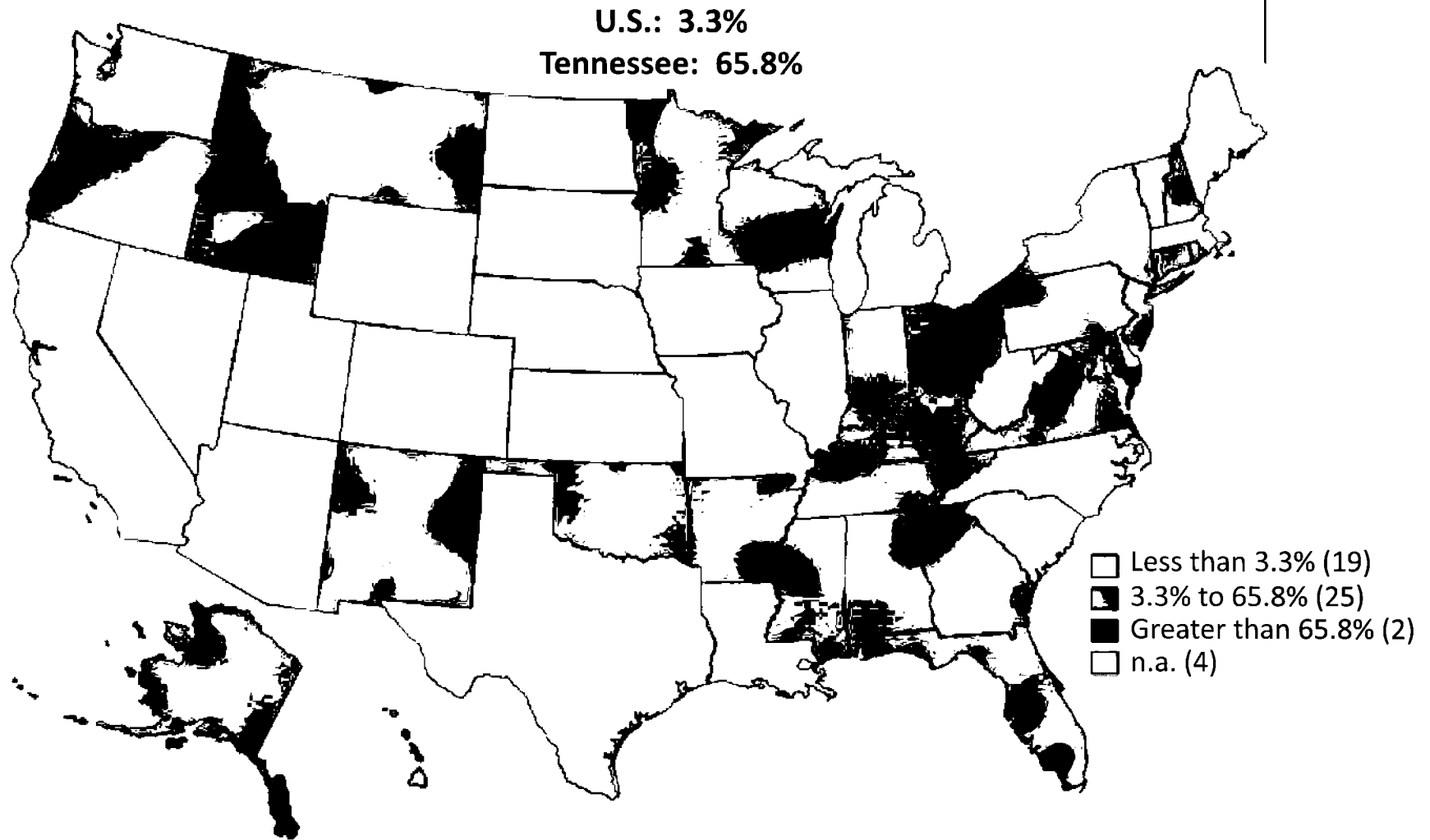
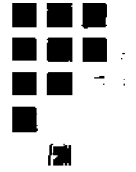
Change in Total Taxes, January–March, 2014 to 2015



Change in Sales Taxes, January–March, 2014 to 2015



Change in Corporate Income Taxes, January–March, 2014 to 2015



Tennessee Department of Revenue Collections (Millions of Dollars)

	2015			2016			2017		
	Amount	Percent	General	Amount	Percent	General	Amount	Percent	General
		Change	Fund		Change	Fund		Change	Fund
Sales and Use	7,706.1	5.8	7,276.9	8,153.1	5.8	7,687.7	8,479.2	4.0	7,995.2
Gasoline	631.8	2.4	10.0	647.6	2.5	10.0	654.1	1.0	10.1
Motor Fuel	165.5	1.7	3.1	169.6	2.5	3.2	173.0	2.0	3.3
Gasoline Inspection	64.8	2.5	18.9	66.1	2.0	19.4	66.8	1.0	19.6
Motor Vehicle Registration	261.8	4.6	46.0	267.0	2.0	47.1	269.7	1.0	47.6
Income	303.4	26.8	196.7	315.5	4.0	205.9	328.2	4.0	214.1
Privilege	351.8	15.3	347.3	372.9	6.0	370.4	395.3	6.0	392.6
Gross Receipts	377.3	5.1	220.6	375.7	-0.4	218.2	382.7	1.9	222.3
Gross Receipts - TVA	348.6	5.0	196.0	347.9	-0.2	194.0	354.9	2.0	197.9
Gross Receipts - Other	28.7	5.5	23.8	27.8	-3.0	23.9	27.8	0.0	23.9
Beer	16.9	-1.2	11.3	18.0	6.5	12.1	18.2	1.0	12.2
Alcoholic Beverage	57.0	3.8	47.2	59.3	4.0	49.0	61.7	4.0	51.0
Franchise & Excise	2,164.5	16.5	1,910.7	2,164.5	0.0	1,843.0	2,207.8	2.0	1,879.8
Inheritance & Estate	70.2	-34.8	70.2	50.0	-28.8	50.0	40.0	-20.0	40.0
Tobacco	263.3	1.2	263.3	263.3	0.0	263.3	260.7	-1.0	260.7
Motor Vehicle Title	12.1	6.1	12.1	18.4	52.4	18.4	18.6	1.0	18.6
Mixed Drink	86.0	11.5	67.0	92.9	8.0	71.8	99.4	7.0	76.8
Business	153.3	33.5	76.9	157.9	3.0	78.9	162.6	3.0	81.2
Severance	2.1	-15.0	2.1	2.1	2.0	2.1	2.2	2.0	2.2
Coin Amusement	0.3	0.0	0.1	0.3	0.0	0.1	0.2	0.0	0.1
Unauthorized Substance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	12,688.2	7.6	10,579.5	13,194.3	4.0	10,950.4	13,620.2	3.2	11,326.9
General Fund Growth		8.2			3.5			3.4	

November 9, 2015

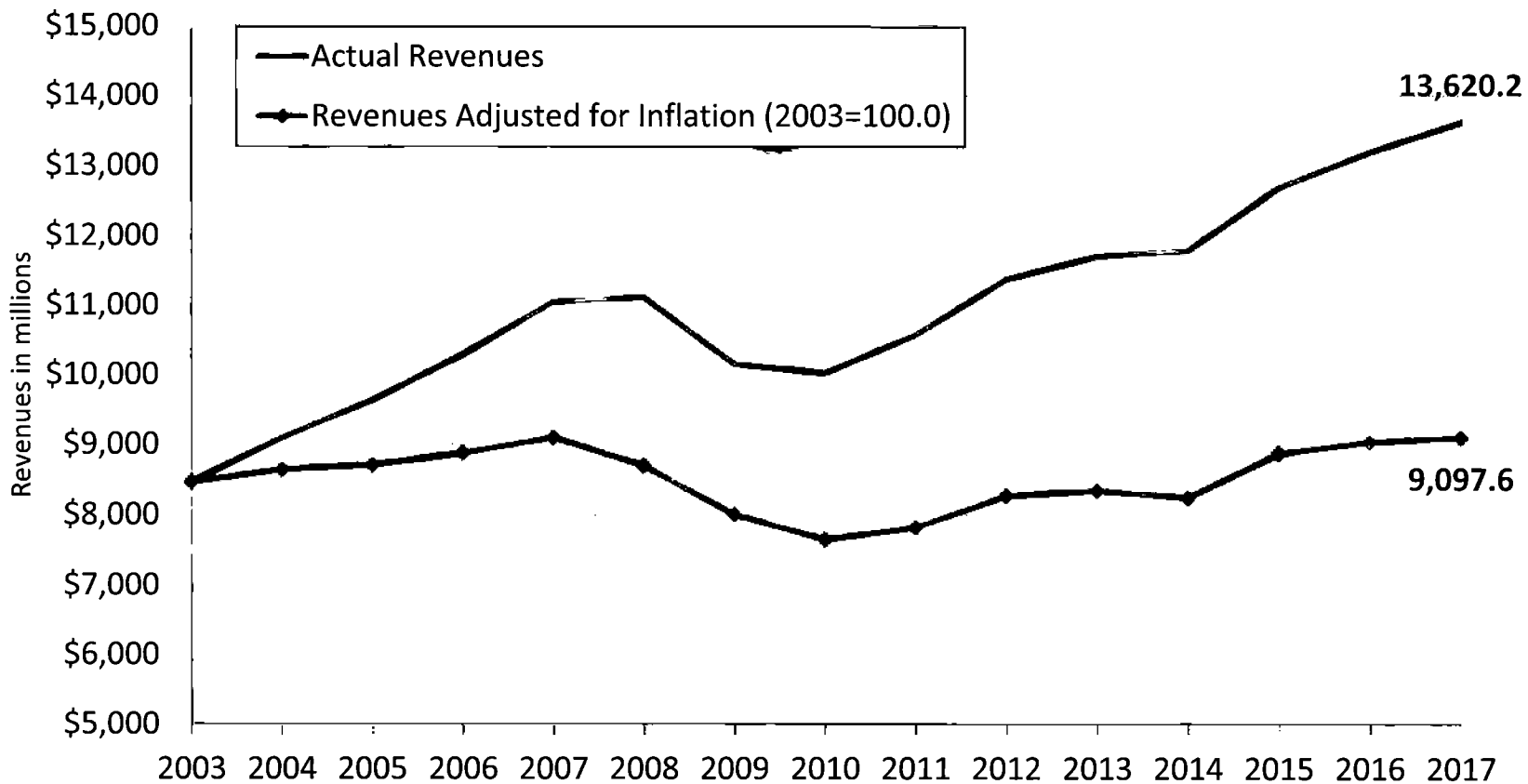
William F. Fox

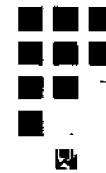
Center for Business and Economic Research

University of Tennessee, Knoxville

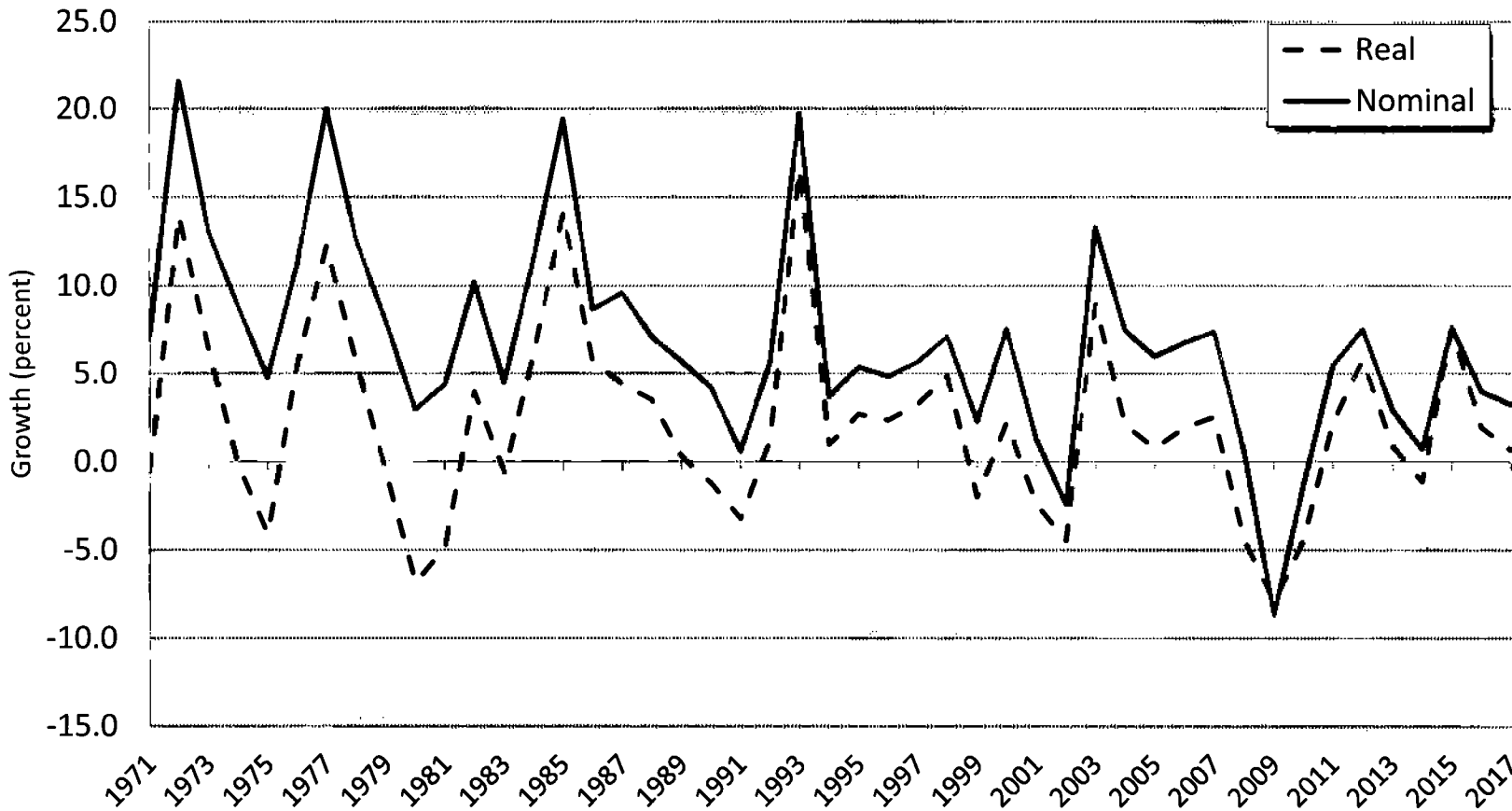


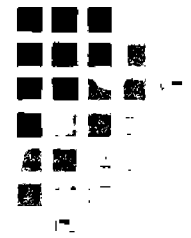
Actual Tax Collection Revenues and Revenues Adjusted for Inflation, 2003–2017



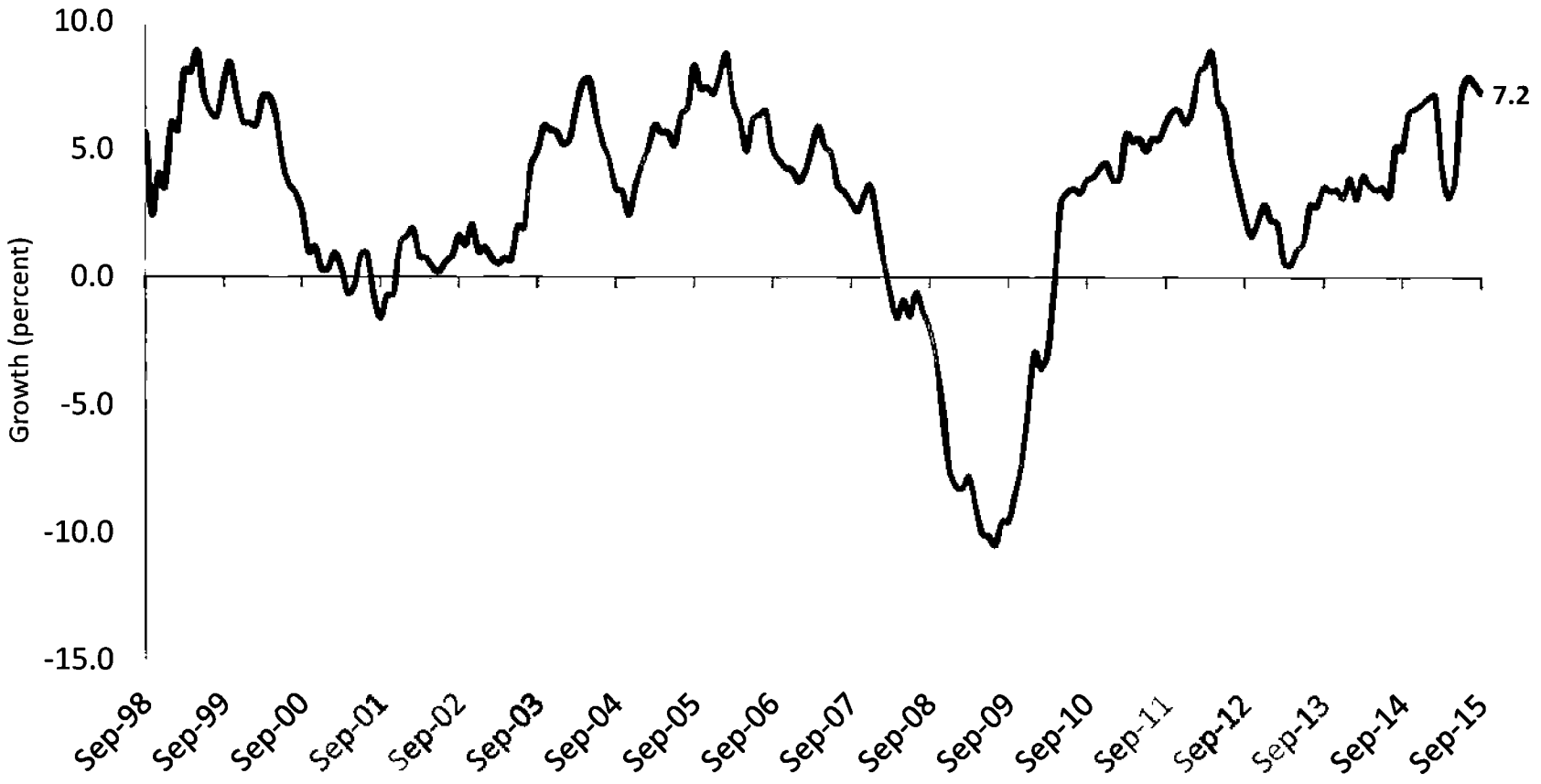


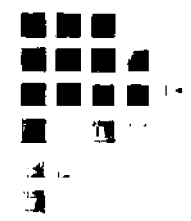
Growth in Adjusted Tax Collections 1972–2017





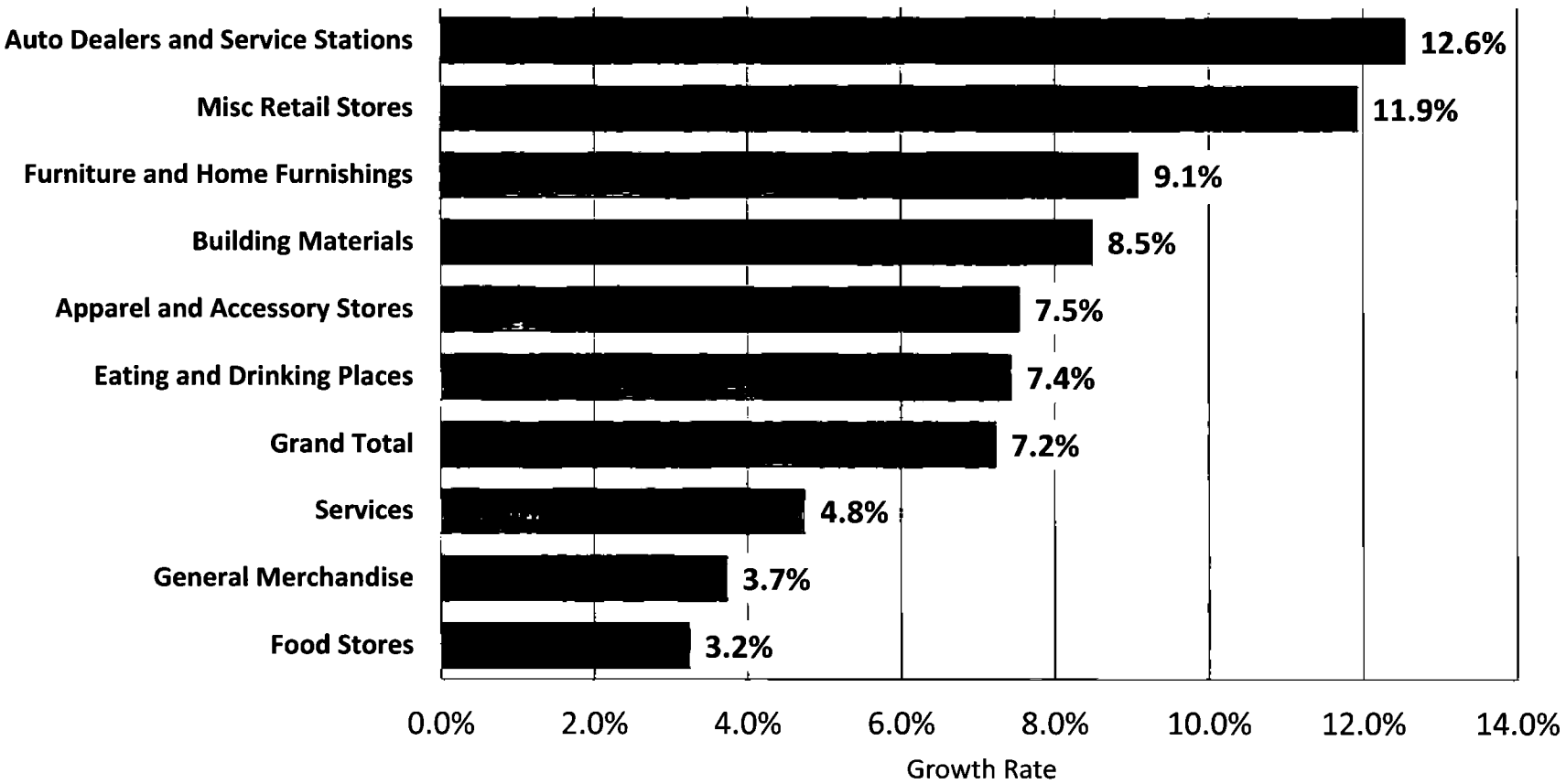
Growth in Sales Tax Revenue (3-month moving average)

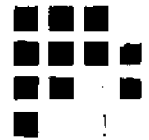




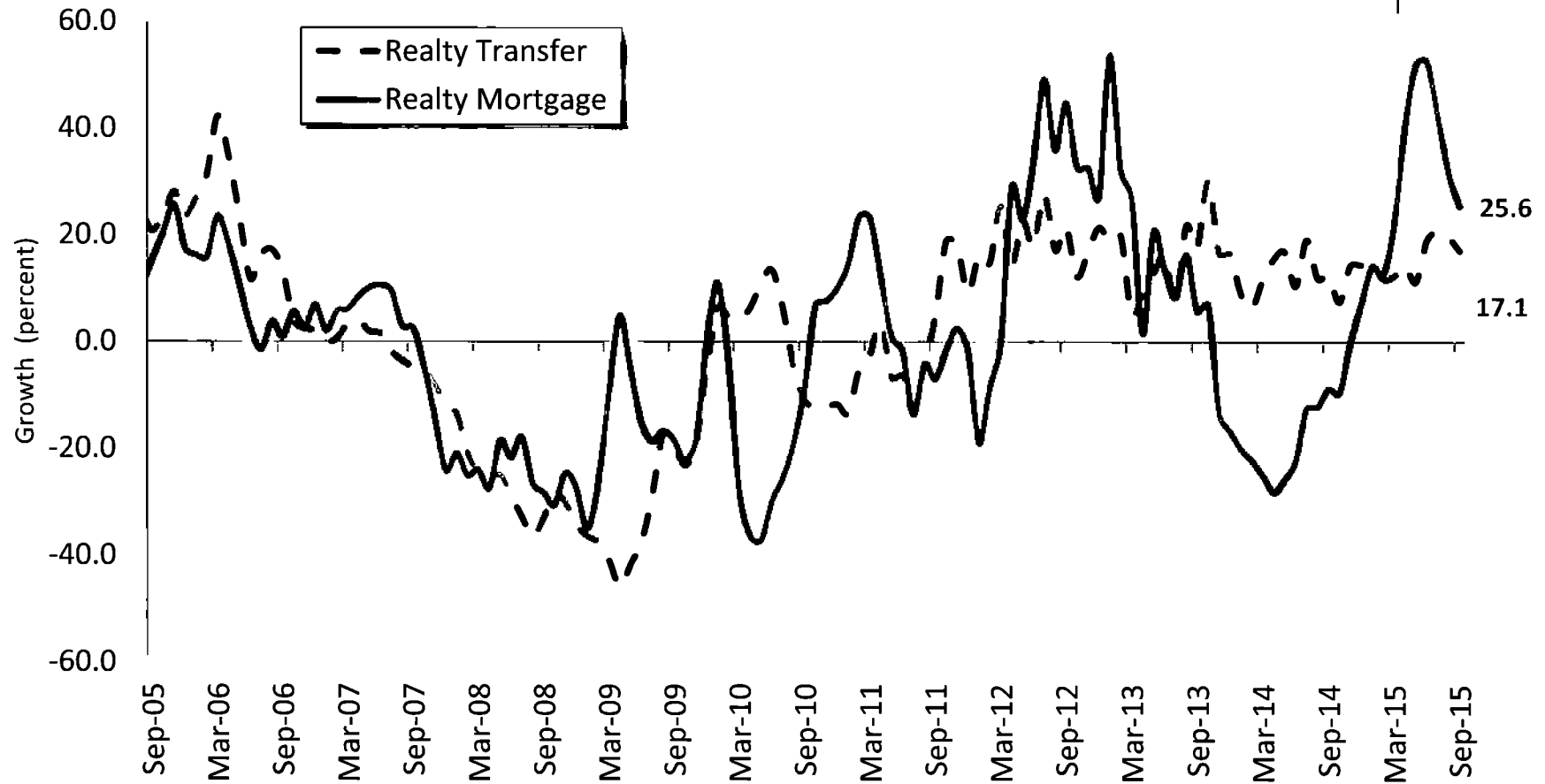
Sales Tax Collections by Category of Sales

(Quarter Ending Sept. 2014 to Sept. 2015)



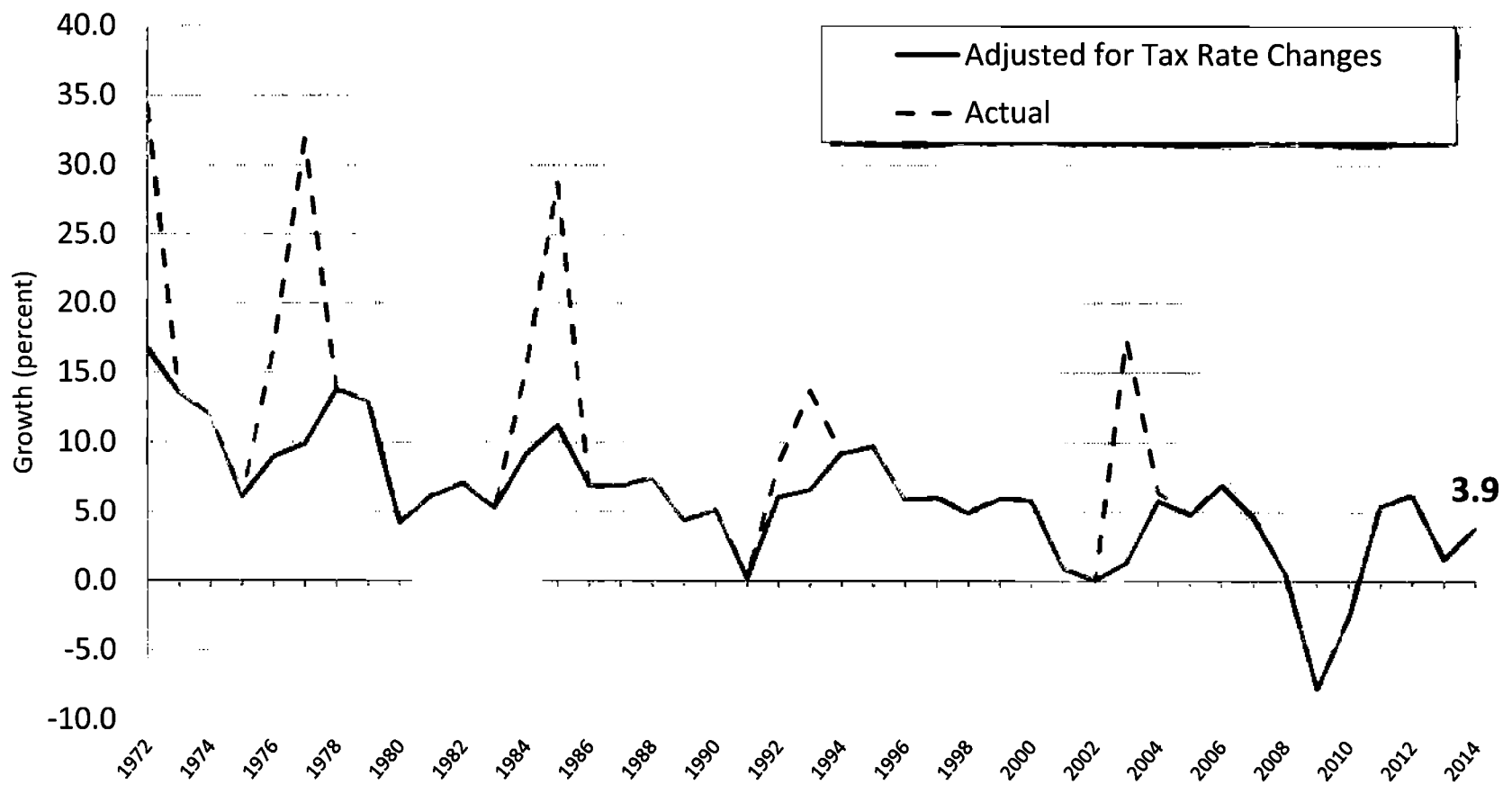


Realty Transfer and Mortgage Tax Collections (3-month moving average)





Sales Tax Collections, Actual vs. Rate Adjusted, 1971–2014





Department of
Revenue

Estimated State Tax Revenue

November 13, 2015

Fiscal Year 2015 Tax Revenue

COMPARISON OF ACTUAL ACCRUAL STATE TAX REVENUE

DEPARTMENT OF REVENUE TAXES

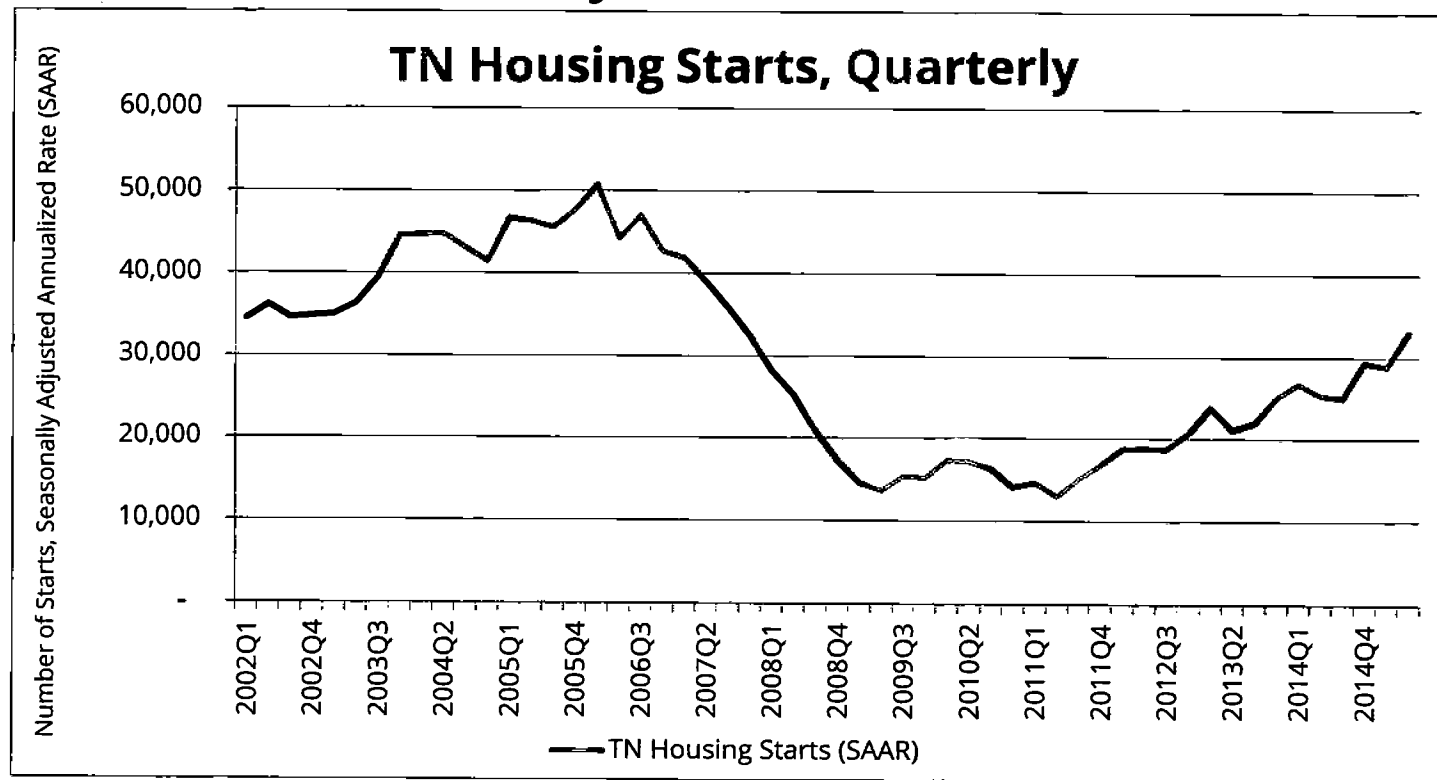
YEAR OVER YEAR COMPARISON

	Fiscal Year 2014	Fiscal Year 2015	% Change	Tax Weight	Total % Point Contribution
Sales and Use Tax	\$ 7,286,200,000	\$ 7,706,100,000	5.76%	62.04%	3.58%
Hall Dividend & Interest Tax	239,300,000	303,400,000	26.79%	2.04%	0.55%
Corporate Franchise and Excise Tax	1,858,600,000	2,164,500,000	16.46%	15.83%	2.60%
Gasoline Tax	617,100,000	631,800,000	2.38%	5.25%	0.13%
Other	1,743,500,000	1,839,500,000	5.51%	14.84%	0.82%
TOTAL ACCRUAL REVENUE	\$11,744,700,000	\$12,645,300,000	7.67%	100%	7.67%

*Data from F&A

Housing

- Housing starts increased 17.5% from FY 2014 – FY 2015
- By the end of FY 2016, housing starts are expected to increase 34.7% from a year earlier



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
April	\$33,920,140	5.45%	\$1,753,179
May	\$41,538,043	4.64%	\$1,843,744
June	\$39,861,436	6.92%	\$2,581,056
July	\$40,572,572	9.42%	\$3,492,072
August	\$37,081,995	7.83%	\$2,693,564
September	\$33,345,995	8.13%	\$2,506,830
		7.03%	\$14,870,445

Privilege Tax Collections from Realty Transfer

	Collections	YOY % Growth	YOY \$ Growth
April	\$10,574,418	25.42%	\$2,143,034
May	\$10,897,673	4.86%	\$505,103
June	\$11,947,841	29.32%	\$2,708,524
July	\$14,226,822	28.88%	\$3,187,971
August	\$13,430,518	4.89%	\$625,822
September	\$13,103,822	19.66%	\$2,152,648
		18.01%	\$11,323,102

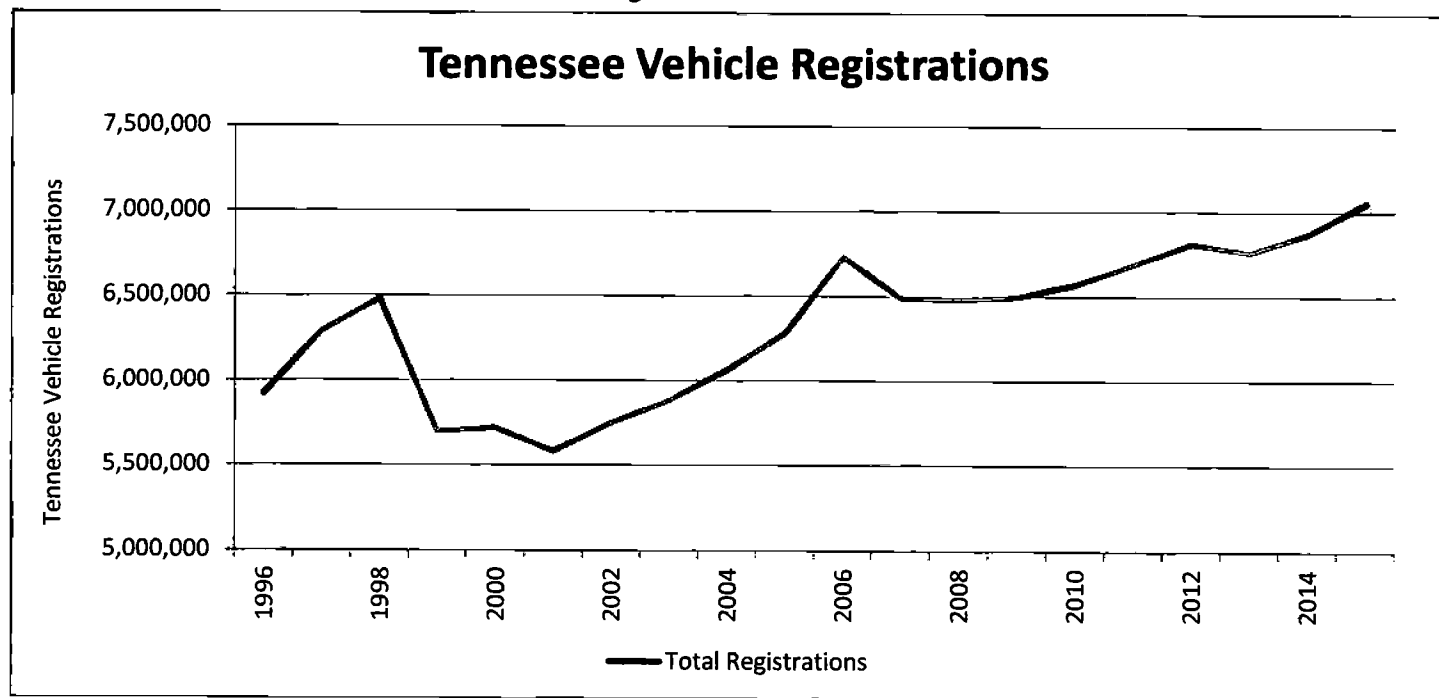
Privilege Tax Collections from Realty Mortgage

	Collections	YOY % Growth	YOY \$ Growth
April	\$5,867,776	76.54%	\$2,544,070
May	\$5,537,804	37.38%	\$1,506,712
June	\$5,086,364	47.75%	\$1,643,720
July	\$6,149,741	43.56%	\$1,865,916
August	\$5,665,437	11.00%	\$561,402
September	\$5,092,054	24.97%	\$1,017,437
		37.67%	\$9,139,257

6 Month Total Growth	11.83%	\$35,332,804
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Automotive

- Tennessee vehicle registrations increased 2.6% from FY 2014 – FY 2015
- By the end of FY 2016, vehicle registrations are expected to increase 2.1% from a year earlier



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
April	\$52,213,032	13.00%	\$6,005,453
May	\$48,693,899	14.67%	\$6,227,680
June	\$53,738,535	10.55%	\$5,128,956
July	\$51,075,248	17.32%	\$7,541,013
August	\$54,151,398	13.26%	\$6,341,886
September	\$56,546,004	12.47%	\$6,271,693
		13.45%	\$37,516,681

Sales Tax Collections from Motor Vehicle Dealers, Used

	Collections	YOY % Growth	YOY \$ Growth
April	\$16,856,777	8.35%	\$1,299,645
May	\$14,594,878	10.19%	\$1,349,640
June	\$15,396,888	11.85%	\$1,630,938
July	\$14,675,340	14.78%	\$1,889,920
August	\$14,789,717	9.26%	\$1,253,345
September	\$15,156,305	6.17%	\$880,275
		9.98%	\$8,303,763

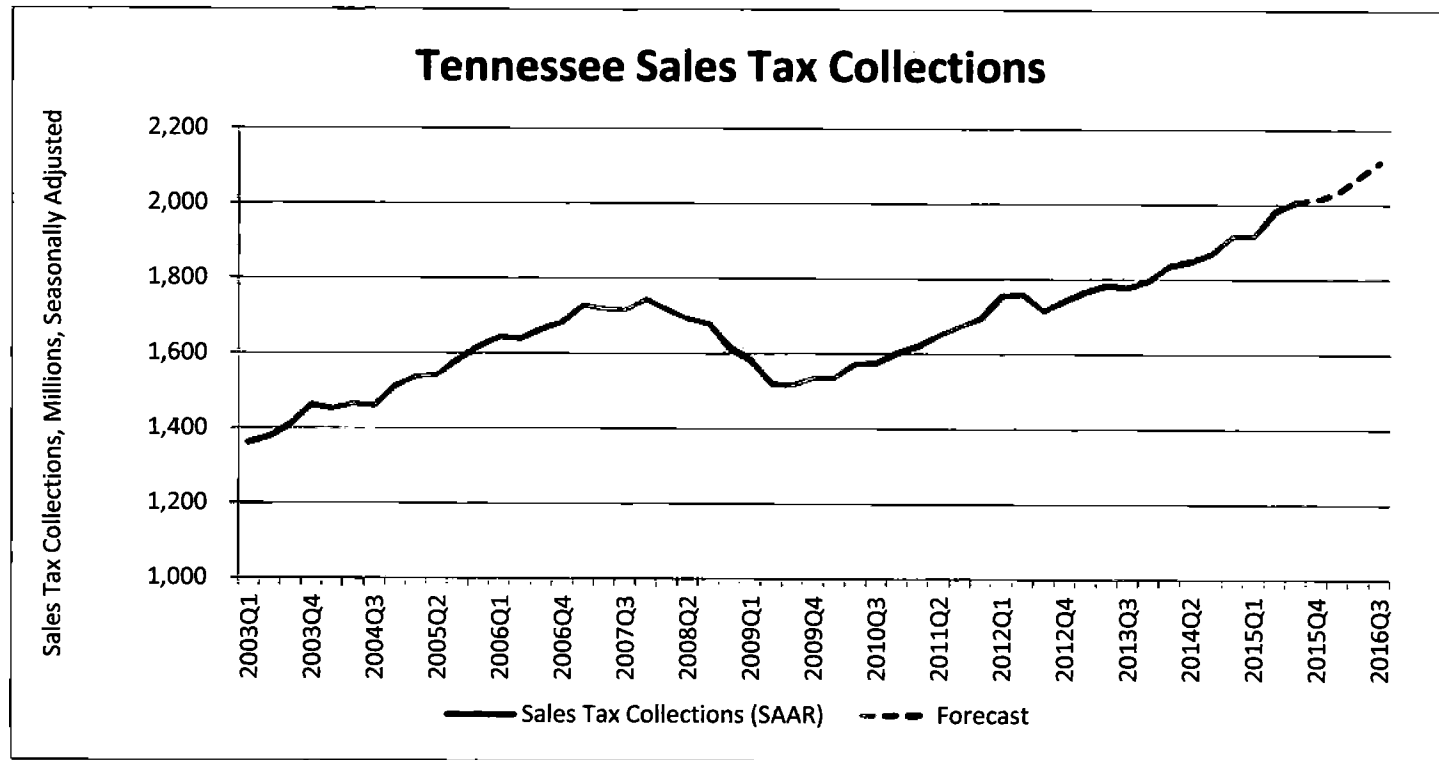
Sales Tax Collections from Auto Repair, Services, and Parking

	Collections	YOY % Growth	YOY \$ Growth
April	\$16,828,361	6.74%	\$1,061,907
May	\$16,988,788	11.27%	\$1,720,416
June	\$16,822,217	7.77%	\$1,212,693
July	\$17,815,243	8.37%	\$1,375,297
August	\$18,094,468	12.60%	\$2,025,086
September	\$17,167,006	10.36%	\$1,611,412
		9.51%	\$9,006,811

6 Month Total Growth	12.00%	\$54,827,255
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Sales

- Sales tax collections increased 5.8% from FY 2014 – FY 2015
- By the end of FY 2016, sales tax collections are expected to increase 5.6% from a year earlier



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
April	\$67,826,118	4.26%	\$2,769,825
May	\$66,140,151	9.72%	\$5,857,120
June	\$69,155,550	10.09%	\$6,339,297
July	\$68,211,508	7.03%	\$4,478,876
August	\$68,413,904	8.67%	\$5,460,973
September	\$67,275,006	6.64%	\$4,188,035
		7.70%	\$29,094,126

Sales Tax Collections from Hotels & Lodging Places

	Collections	YOY % Growth	YOY \$ Growth
April	\$17,550,820	11.02%	\$1,742,258
May	\$18,092,321	10.42%	\$1,707,648
June	\$18,579,347	17.11%	\$2,714,269
July	\$21,045,527	10.77%	\$2,046,957
August	\$22,197,581	16.33%	\$3,115,360
September	\$18,630,693	8.75%	\$1,499,550
		12.42%	\$12,826,042

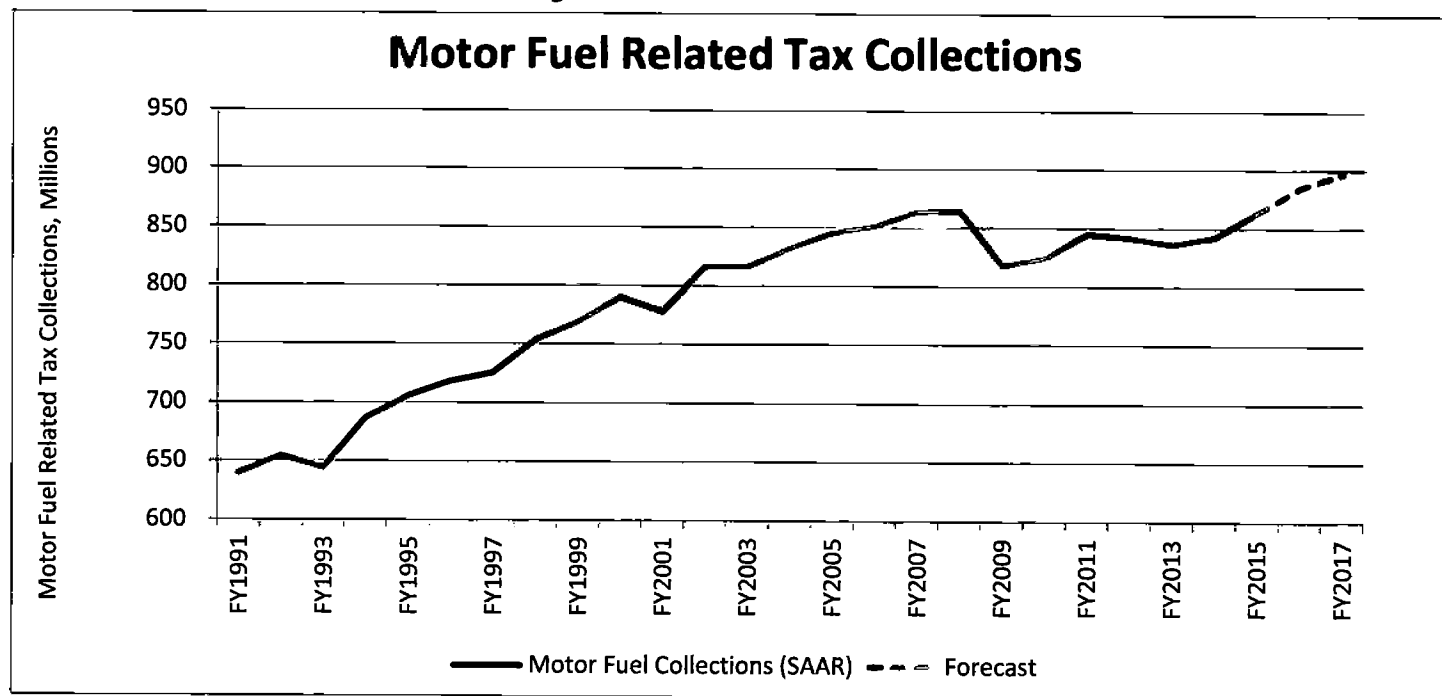
Mixed Drink (Liquor-by-the-Drink) Tax Collections

	Collections	YOY % Growth	YOY \$ Growth
April	\$7,608,574	10.69%	\$735,034
May	\$7,785,475	17.05%	\$1,134,346
June	\$8,214,487	7.44%	\$569,142
July	\$7,538,249	7.60%	\$532,429
August	\$7,615,569	16.19%	\$1,061,240
September	\$7,830,089	11.34%	\$797,492
		11.56%	\$4,829,683

6 Month Total Growth	8.94%	\$46,749,851
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Motor Fuel Related Collections*

- Motor fuel related tax collections increased 2.3% from FY 2014 - FY 2015
- By the end of FY 2016, collections are expected to increase 1.4% from a year earlier



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
April	\$10,366,603	9.79%	\$924,259
May	\$10,141,194	6.83%	\$648,013
June	\$11,651,794	10.27%	\$1,085,607
July	\$11,384,338	9.69%	\$1,005,844
August	\$11,858,067	8.98%	\$977,376
September	\$11,495,733	7.51%	\$803,265
		8.86%	\$5,444,364

Gasoline Tax Collections

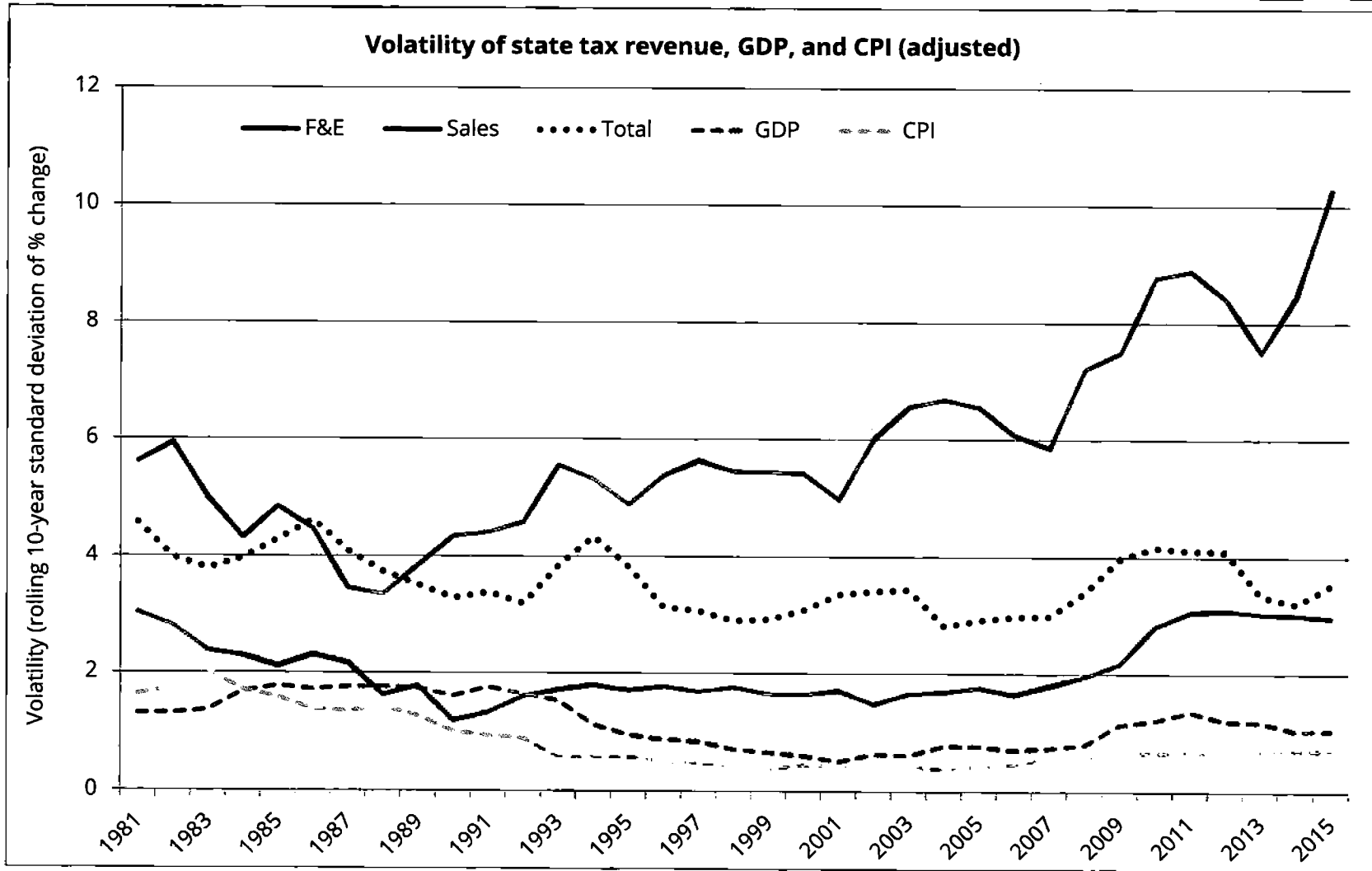
	Collections	YOY % Growth	YOY \$ Growth
April	\$46,795,846	-1.56%	-\$742,287
May	\$53,049,497	-3.57%	-\$1,962,960
June	\$56,931,799	-0.15%	-\$87,799
July	\$59,506,752	8.67%	\$4,748,193
August	\$56,507,391	5.87%	\$3,133,197
September	\$56,502,369	4.92%	\$2,650,827
		2.41%	\$7,739,172

Motor Fuel Tax Collections

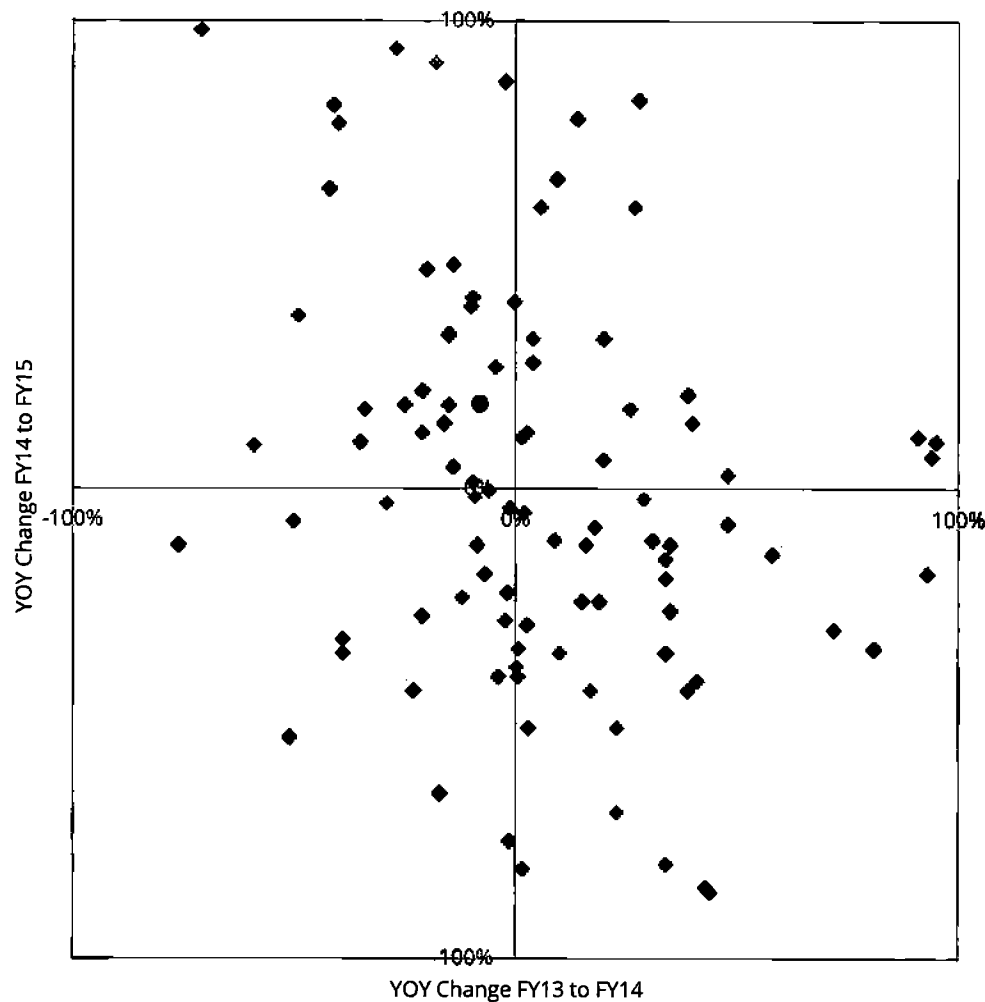
	Collections	YOY % Growth	YOY \$ Growth
April	\$16,234,321	5.47%	\$842,499
May	\$14,256,014	12.44%	\$1,577,334
June	\$13,526,100	-5.66%	-\$812,256
July	\$16,099,928	4.63%	\$712,564
August	\$12,446,199	7.04%	\$818,131
September	\$14,615,778	1.78%	\$254,942
		4.05%	\$3,393,214

6 Month Total Growth	3.55%	\$16,576,750
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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.

F&E Payment History

FY	Month	Franchise Return	Excise Return	Net Estimated Payments	Reported Total
2013	Jul-12	31,484,600	74,758,295	(51,505,961)	54,736,934
2013	Aug-12	26,397,631	27,565,779	(18,519,838)	35,443,573
2013	Sep-12	87,030,347	121,664,794	100,449,176	309,144,317
2013	Oct-12	237,513,821	402,220,493	(574,595,214)	65,139,101
YTD Jul-12 thru Oct-12		382,426,400	626,209,361	(544,171,837)	464,463,924
2013	Nov-12	29,567,200	37,976,757	(41,014,411)	26,529,546
2013	Dec-12	39,837,384	49,574,984	153,601,247	243,013,615
2013	Jan-13	12,697,901	24,631,605	134,819,787	172,149,293
2013	Feb-13	14,013,708	37,751,657	(13,820,399)	37,944,965
2013	Mar-13	42,184,040	77,119,050	92,238,700	211,541,790
2013	Apr-13	83,384,290	143,970,221	244,725,022	472,079,534
2013	May-13	17,592,485	24,645,365	3,033,336	45,271,185
2013	Jun-13	20,229,109	18,646,466	302,354,697	341,230,272
FY 2013 Total		641,932,517	1,040,525,465	331,766,143	2,014,224,125
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

FY	Month	Franchise Return	Excise Return	Net Estimated Payments	Reported Total
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
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				
2016	Dec-15				
2016	Jan-16				
2016	Feb-16				
2016	Mar-16				
2016	Apr-16				
2016	May-16				
2016	Jun-16				
FY 2016 Total		455,460,674	1,006,642,075	(931,627,091)	530,475,659

Public Chapter 514 of 2015 – Revenue Modernization Act

- Estimated Fiscal Impact on FY16 Collections and FY17 Collections:
 - Software and video games are taxed consistently, regardless of the delivery method. As a result, software and video games accessed remotely are subject to sales and use tax effective July 1, 2015.
 - Estimated Fiscal Impact: \$11.4M recurring increase.
 - Out-of-state dealers have nexus and must collect sales and use tax from Tennessee customers if the dealer pays an in-state party a fee or commission to route customers to the dealer.
 - Estimated Fiscal Impact: \$5.8M recurring increase.

Public Chapter 514 of 2015 – Revenue Modernization Act

- Estimated Fiscal Impact on FY17 Collections:
 - Modernizes the franchise and excise and business taxes. Out-of-state businesses not already subject to Tennessee taxes will be subject to F&E and business taxes to the fullest extent the Constitution allows.
 - Estimated Fiscal Impact: \$10.2M increase
 - Changes the state F&E tax apportionment formula by triple-weighting the sales factor.
 - Estimated Fiscal Impact: \$33.2M decrease

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.
- In preparing the revised estimate for FY16 and the estimate for FY17, the Department removed \$150M from the 2015 F&E collections to account for a nonrecurring item.
- In the collections for the current fiscal year, the Department has identified \$61.8M that is currently considered nonrecurring. This amount is not included in the Department's revised estimate for FY16.
- The growth in F&E collections for FY16 and FY17 does not include any known nonrecurring items.

Non-Recurring Items

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

Non-Recurring Items

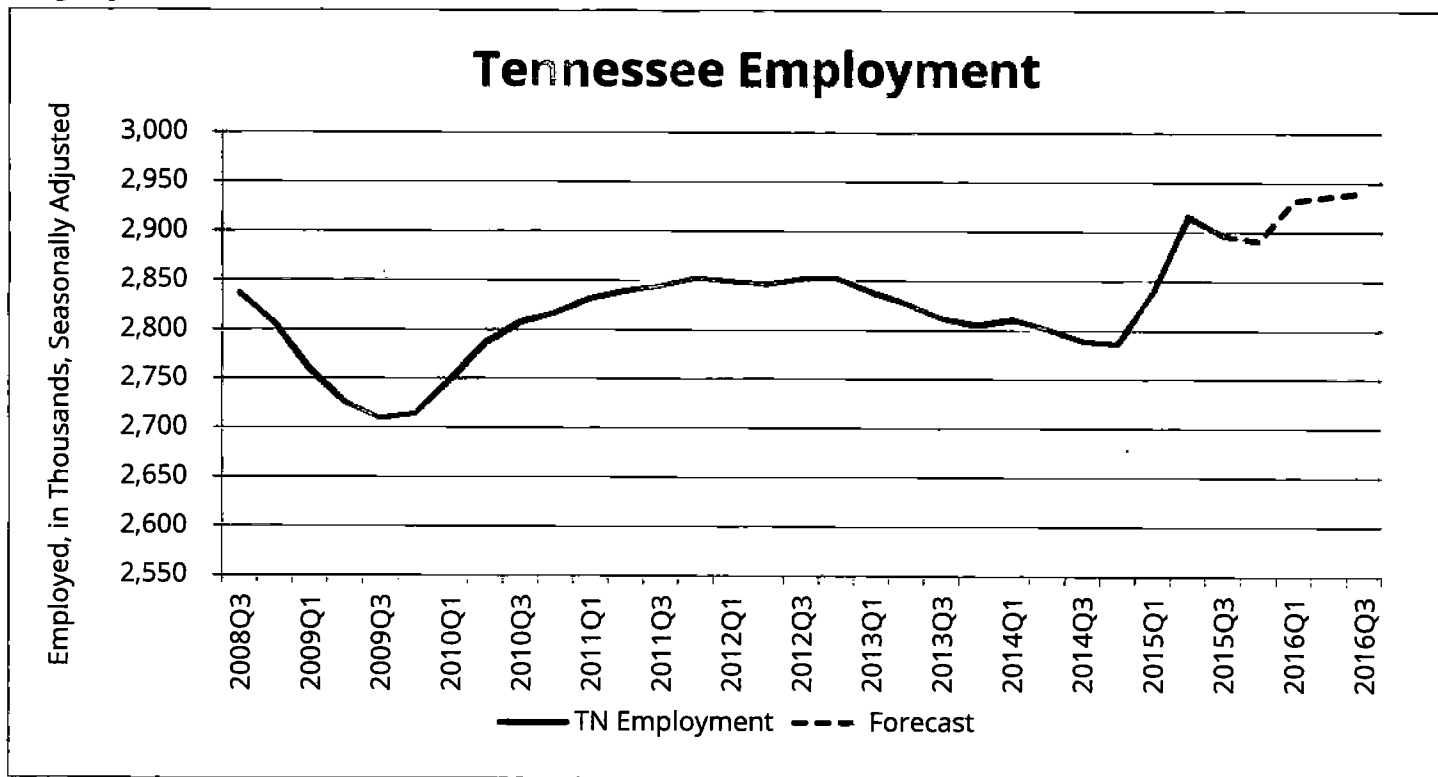
- Analyze daily tax revenue collections relative to previous years and budget estimates.
- Identify extraordinary or unusual payments using the Department of Revenue Business Intelligence tool and SAS programs.
- Narrow down analysis to the taxpayer level to identify the nature of the payment and possible 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.

Non-Recurring Items

- At last year's State Funding Board meeting, the Department of Revenue was specifically asked if it was aware of any non-recurring items in the F&E estimates for FY 2015 or FY 2016.
- At that point in time, the Department was unaware of any items.
- However, in January 2015, the Department received unexpected one-time F&E collections.
- As a result of the procedures used to monitor collections, the Department was able to immediately alert F&A.

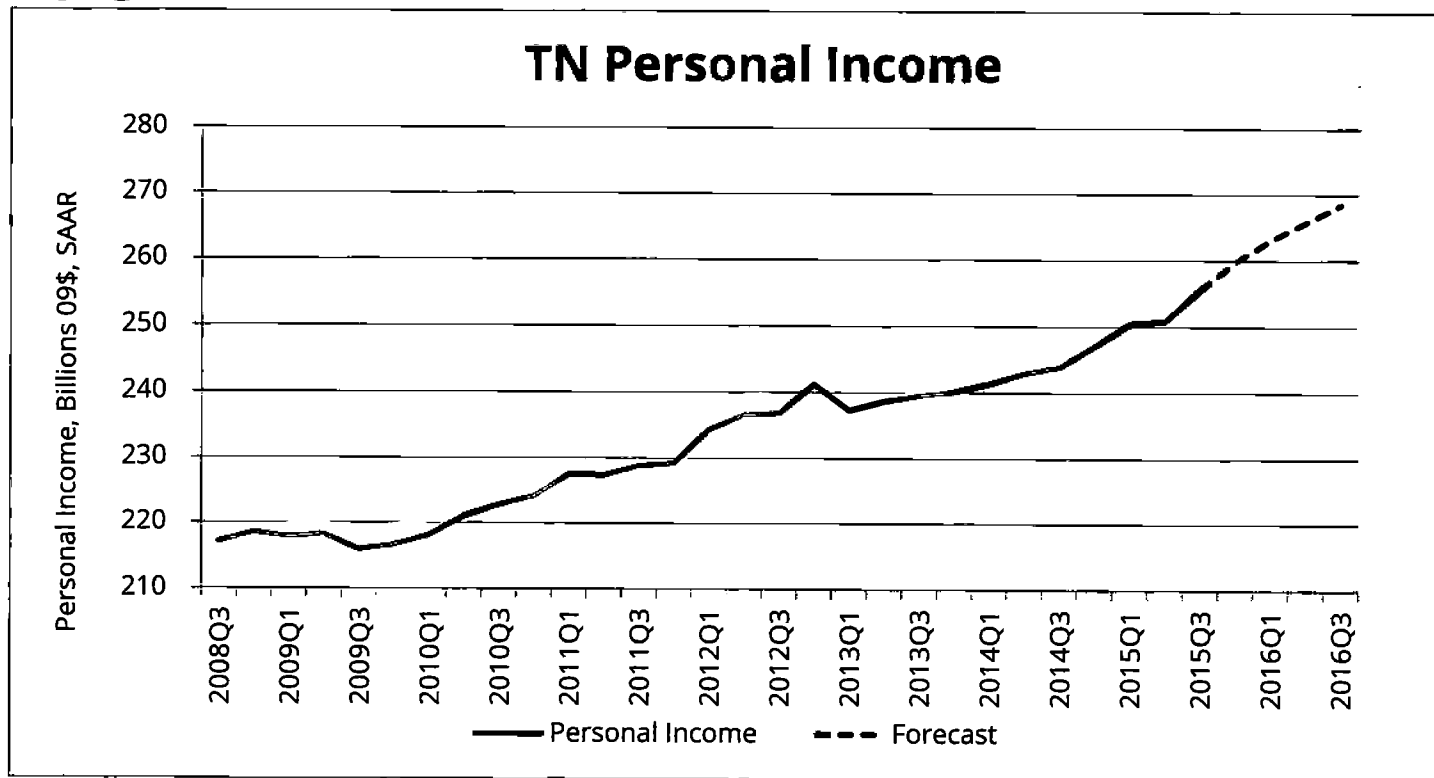
Tennessee Employment

- Temporary weakness in employment
- Continued job growth expected over the forecast horizon, led by professional and business services



Tennessee Personal Income

- Personal income gains of 2.9% for FY 2015
- Personal income gains of 5.2% are expected for FY 2016, led by growth in dividends, interest, and rents





Department of
Revenue

REVENUE COLLECTION ESTIMATES
STATE FUNDING BOARD MEETING - 11/13/2015
Accrual year basis (USD)

SOURCE OF REVENUE

Department of Revenue	preliminary	official	FY 2016		FY 2017	
	Accrual Revenues FY 2015 Actual	Revenue Estimates FY2016	Revised Estimates FY 2016	% change ² over FY 2015	Revenue Estimates FY 2017	% change ² over FY 2016
Sales and Use Tax	\$7,706,100,000	\$7,894,200,000	8,140,900,000	5.64%	8,575,700,000	5.34%
Gasoline Tax	631,800,000	626,400,000	646,800,000	2.37%	656,200,000	1.45%
Motor Fuel Tax	165,500,000	168,500,000	170,300,000	2.90%	172,400,000	1.23%
Gasoline Inspection Tax	64,800,000	65,400,000	66,000,000	1.85%	67,000,000	1.52%
Motor Vehicle Registration Tax	261,800,000	255,300,000	269,100,000	2.79%	276,300,000	2.68%
Income Tax	303,400,000	267,500,000	325,600,000	7.32%	341,000,000	4.73%
Privilege Tax ¹	308,800,000	295,700,000	319,600,000	3.50%	333,100,000	4.22%
Gross Receipts Tax - TVA	348,600,000	354,000,000	348,900,000	0.09%	355,000,000	1.75%
Gross Receipts Tax - Other	28,700,000	29,600,000	18,900,000	-34.15%	31,200,000	65.08%
Beer Tax	16,900,000	17,500,000	17,000,000	0.59%	17,100,000	0.59%
Alcoholic Beverage Tax	57,000,000	60,000,000	59,200,000	3.86%	61,600,000	4.05%
Franchise & Excise Tax	2,164,500,000	1,937,900,000	2,102,200,000	-2.88%	2,195,000,000	4.41%
Inheritance and Estate Tax	70,200,000	41,300,000	34,100,000	-51.42%	14,500,000	-57.48%
Tobacco Tax	263,300,000	245,000,000	260,700,000	-0.99%	258,700,000	-0.77%
Motor Vehicle Title Fees	12,100,000	18,000,000	18,500,000	52.89%	18,800,000	1.62%
Mixed Drink Tax	86,000,000	88,700,000	95,100,000	10.58%	104,200,000	9.57%
Business Tax	153,300,000	142,700,000	146,700,000	-4.31%	155,200,000	5.79%
Severance Tax	2,100,000	2,600,000	1,800,000	-14.29%	2,000,000	11.11%
Coin-operated Amusement Tax	300,000	300,000	300,000	0.00%	300,000	0.00%
Total Department of Revenue	\$12,645,200,000	\$12,510,600,000	\$13,041,700,000	3.14%	\$13,635,300,000	4.55%
General Fund Only	\$10,588,900,000	\$10,422,300,000	\$10,929,000,000	3.21%	\$11,454,300,000	4.81%

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

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

Definitions and Sources

- SAAR = Seasonally Adjusted Annualized Rate
- FY = Fiscal Year
- TN = Tennessee
- Data Sourced From:
 - Moody's Analytics (Fall, 2015)
 - BEA (Fall, 2015)
 - BLS (Fall, 2015)
 - U.S. Census Bureau (Fall, 2015)
 - TN Department of Revenue (Fall, 2015)
 - TN Department of Finance & Administration (Fall, 2015)



***Tennessee Tax Revenue Estimates
for
FY2015-2016 and FY2016-2017***

***Prepared by:
Fiscal Review Committee Staff
November 13, 2015***





Economic Outlook - Jobs

- **Total nonfarm payrolls (SA) continue steady growth**
 - **October 2015: added 271,000 jobs**
 - **With revisions to August and September data: added an average of 187,000 jobs per month over last 3 months; 235,000 jobs per month over last 12 months.**
 - **TN: added an average of 3,133 jobs per month over last 3 months; 3,892 jobs per month over last 12 months.**

- **Unemployment rates will continue improving:**
 - **Actual U.S. Unemployment Rate (Oct 2015): 5.0%**
 - **Projected U.S. Unemployment Rate (Dec 2015): 5.0%**
 - **Projected U.S. Unemployment Rate (Jun 2016): 4.8%**
 - **Projected U.S. Unemployment Rate (Dec 2016): 4.7%**





Economic Outlook - Income

- ❑ **Employment Cost Index: Wages/Salaries (Private Industry Workers):**
 - 2009(Q2) → 2014 (Q2): Below 2.0% year-over-year growth
 - Since 2014 (Q3): Above 2.0% year-over-year growth
- ❑ **Avg. hourly earnings for all employees on private nonfarm payrolls rose 9 cents in October (vs. 1 cent in September) – up 2.5% year-over-year.**
- ❑ **Real Personal Income Growth:**
 - Aug 2015: + 3.86% year-over-year
 - Sep 2015: + 3.90% year-over-year
- ❑ **Real Disposable Personal Income Growth:**
 - Aug 2015: + 3.27% year-over-year
 - Sep 2015: + 3.41% year-over-year





Economic Outlook - Consumption

- Index of consumer expectations up in Oct. by 5.0% month-over-month ; 3.1% year-over-year.
- Growth in real personal consumption expenditures: sustainable, ranging between 2.5% and 3.5%.
- Growth in real retail and food service sales: sustainable, ranging between 2.0% to 3.0%.
- Growth in light vehicle sales: rate of growth starting to slow, but still sustainable. 17.7 M units (2015); 17.9 M units (2016); 18.0 M units (2017).
- Anticipated 2015 holiday sales growth: 3.7% (The National Retail Federation).





Economic Outlook - Housing

- **Housing/Construction continues recovery:**
 - **Growth expected to be fairly robust**
 - **September 2015: 1.21 million new units per year – eight-year high; best since Oct 2007.**
 - **Relative to 2.2 million new units in 2005-06.**
 - **Fannie Mae (October 2015) – Total home sales growth forecast 8.0% in 2015; and an additional 4.0% in 2016.**
 - **National Association of Home Builders (August 2015): TN ranked 6th for best year-over-year growth (38.0%) in building permits issued.**
 - **Pent up demand: millennials are coming; large cohort soon to be first-time buyers; delayed home purchases due to student debt; relatively tighter mortgage credit.**





Economic Outlook – Crude, Inflation

- Low crude oil prices:**
 - **As of 11/09/2015: Brent Crude is \$47.42 per barrel; WTI Crude is \$44.29 per barrel**
 - **Gas prices as of 11/09/2015: \$2.22 (U.S.); \$2.02 (TN)**
 - **Gas prices 1 year prior: \$2.93 (U.S.); \$2.70 (TN)**
 - **National consumption: 136.8 billion gallons in 2014**
 - **Effect: injection into the U.S. economy: \approx \$100 billion; and an injection into TN economy \approx \$2 billion**
- What about inflation?**
- CPI (all items less food & energy): 1.9% year-over-year in September 2015.**
- Inflation: expected to range between 2.0% and 2.5%.**





FRC Economic Outlook - Rates

- 64% of economists surveyed (WSJ) predict Fed will increase rates in Dec. 2015 meeting.
- Dependent on jobs report released in Dec.
- Fed will begin gradually increasing the federal funds rate in Dec 2015
 - *Actual rate (Jun 2015): 0.13%*
 - *Average Projected Rate (Dec 2015): 0.32%*
 - *Average Projected Rate (June 2016): 0.72%*
 - *Average Projected Rate (Dec 2016): 1.19%*
 - *Average Projected Rate (June 2017): 1.71%*





Economic Outlook – GDP, Recession

- Result: a continued moderate economic expansion**
 - Actual GDP growth (2014) = 2.4%
 - Projected GDP growth (2015) \approx 2.3%
 - Projected GDP growth (2016) \approx 2.7%
 - Projected GDP growth (2017) \approx 2.5%

- Recession Probability (WSJ Survey):**
 - July 2015: 10.02%
 - August 2015: 9.84%
 - September 2015: 9.97%
 - October 2015: 15.34%





Key Forecasting Issues

- Is growth in sales tax collections sustainable?
- Is continued uptick in fuel tax collections sustainable?
- What's going on with tobacco tax collections?
- What happens with Hall income tax collections after annual growth rates of 0.6%, 26.1%, 2.5%, and 26.7% over last four years (FY11-12 → FY14-15) respectively?
- What happens with F&E collections after annual growth rates of 22.3%, 9.1%, -8.0%, and 18.8% over last four years (FY11-12 → FY14-15) respectively?
- When will inheritance tax collections go away for good pursuant to PC1057 (2012)?





TN Tax Revenue Outlook

- Conducive for good tax revenue growth for TN in FY15-16 and FY16-17:
 - Total Revenue Growth of **4.08%** in FY15-16 (relative to preliminary accruals provided for FY14-15)
 - General Fund Growth of **3.99%** in FY15-16 (relative to preliminary accruals provided for FY14-15)
 - Total Revenue Growth of **3.50%** in FY16-17
 - General Fund Growth of **3.89%** in FY16-17





Base Analysis for Sales Tax

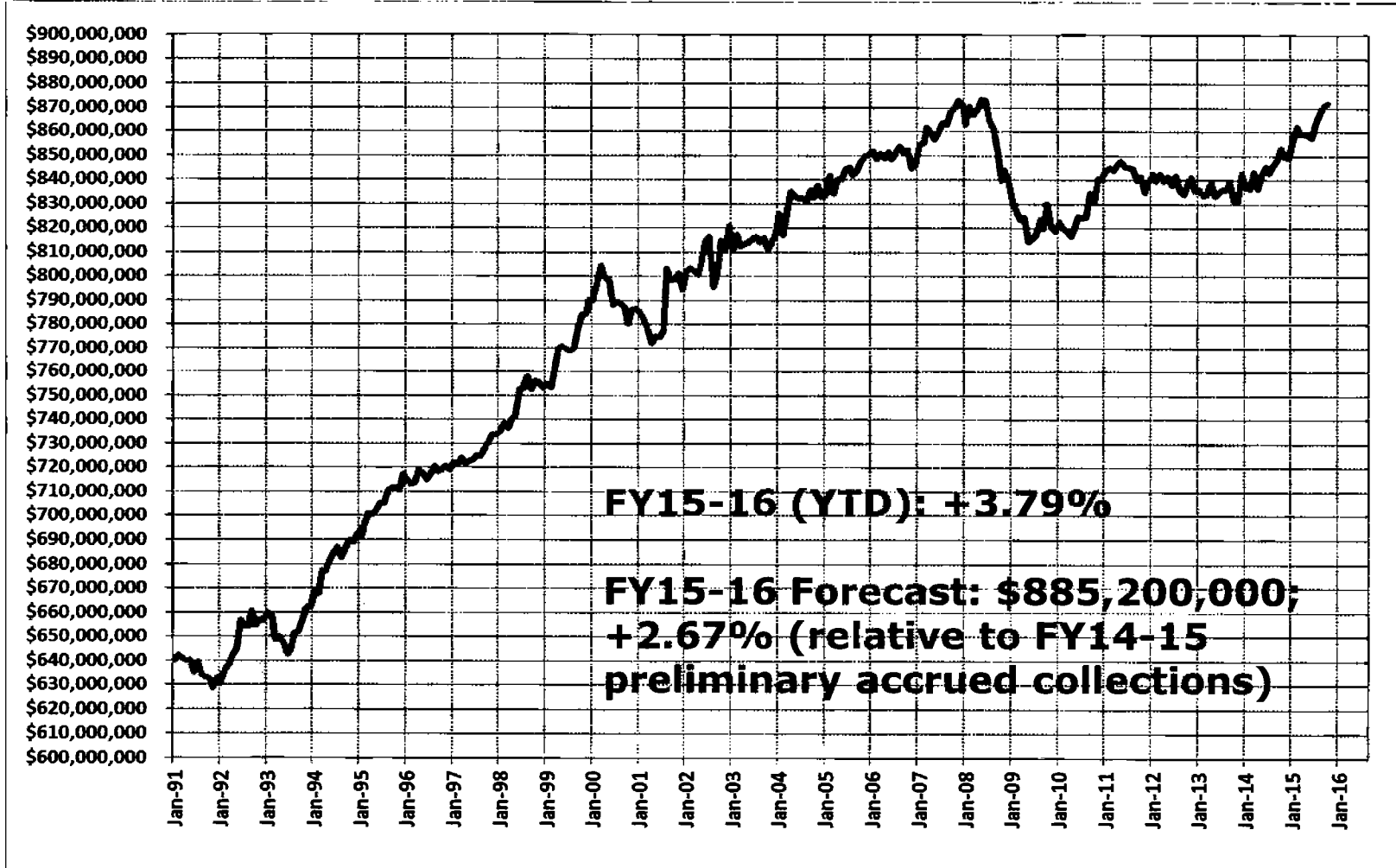
	FY13-14	Growth over FY12-13	FY14-15	Growth over FY13-14	FY15-16	Growth over FY14-15
August	3.75%	3.53%	6.73%	6.44%	8.26%	7.48%
September	3.50%		5.32%		6.45%	
October	2.91%		7.27%		7.73%	
November	3.97%	3.54%	7.28%	6.10%	?	5.56%
December	2.53%		5.87%		?	
January	4.95%		7.80%		?	
February	1.10%		7.62%		?	
March	5.51%		-3.17%		?	
April	4.04%		5.14%		?	
May	0.93%		9.06%		?	
June	5.54%		7.62%		?	
July	3.17%	7.01%	?			
Year-over-Year (cash)		3.53%		6.18%		6.03%

*FRC
Forecast*



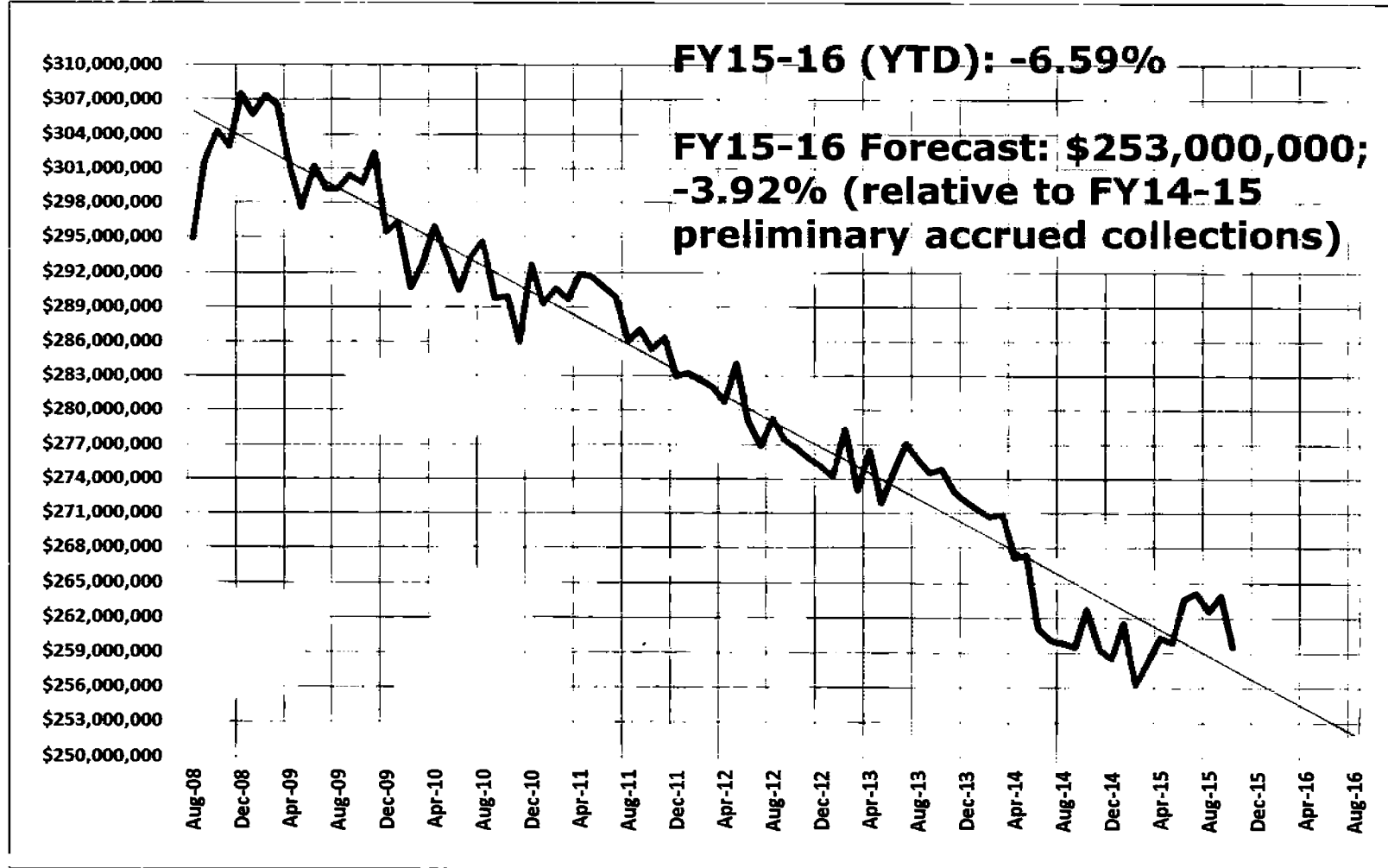


Fuel Taxes (12 month MS)



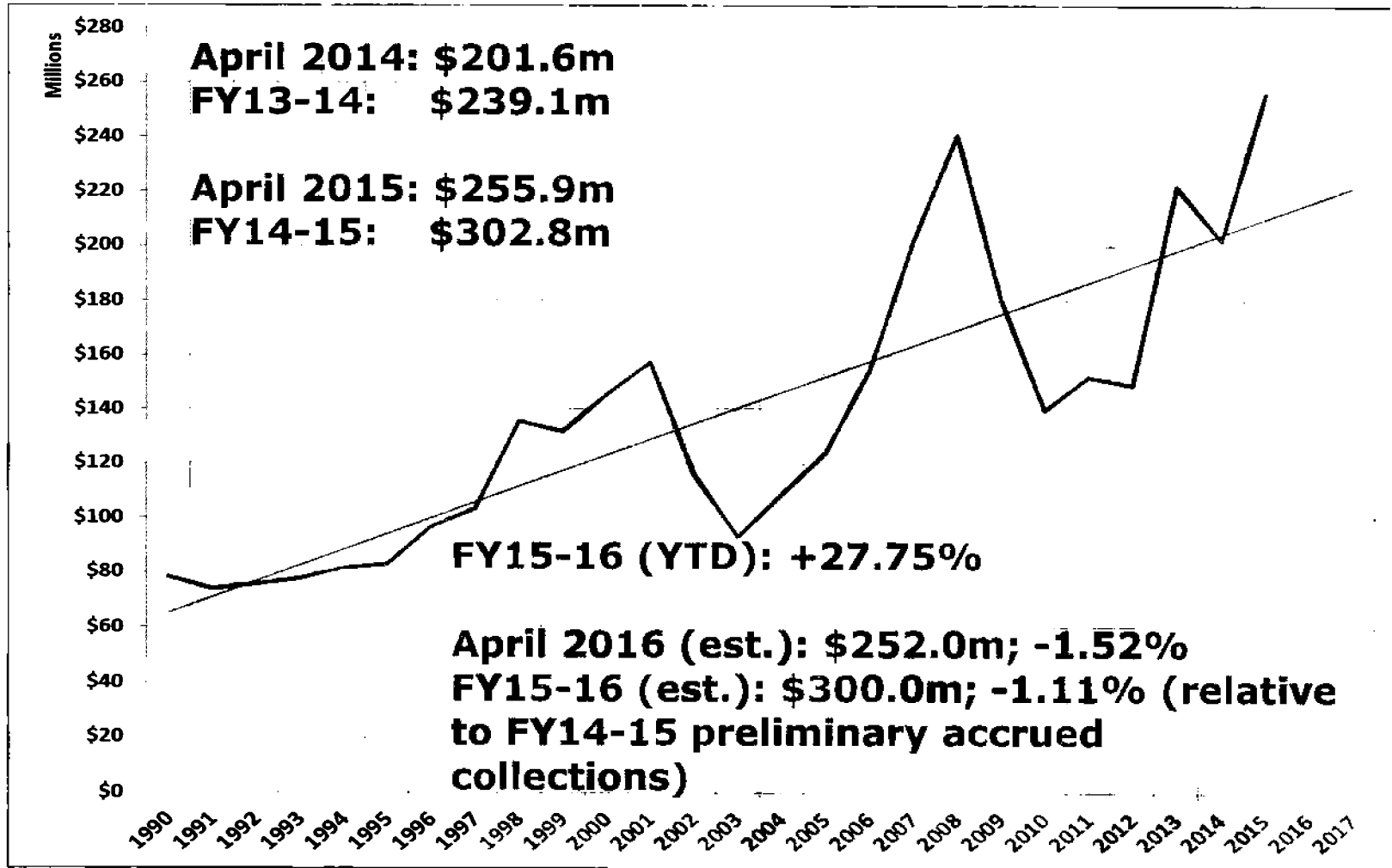


Tobacco Tax (12 month MS)



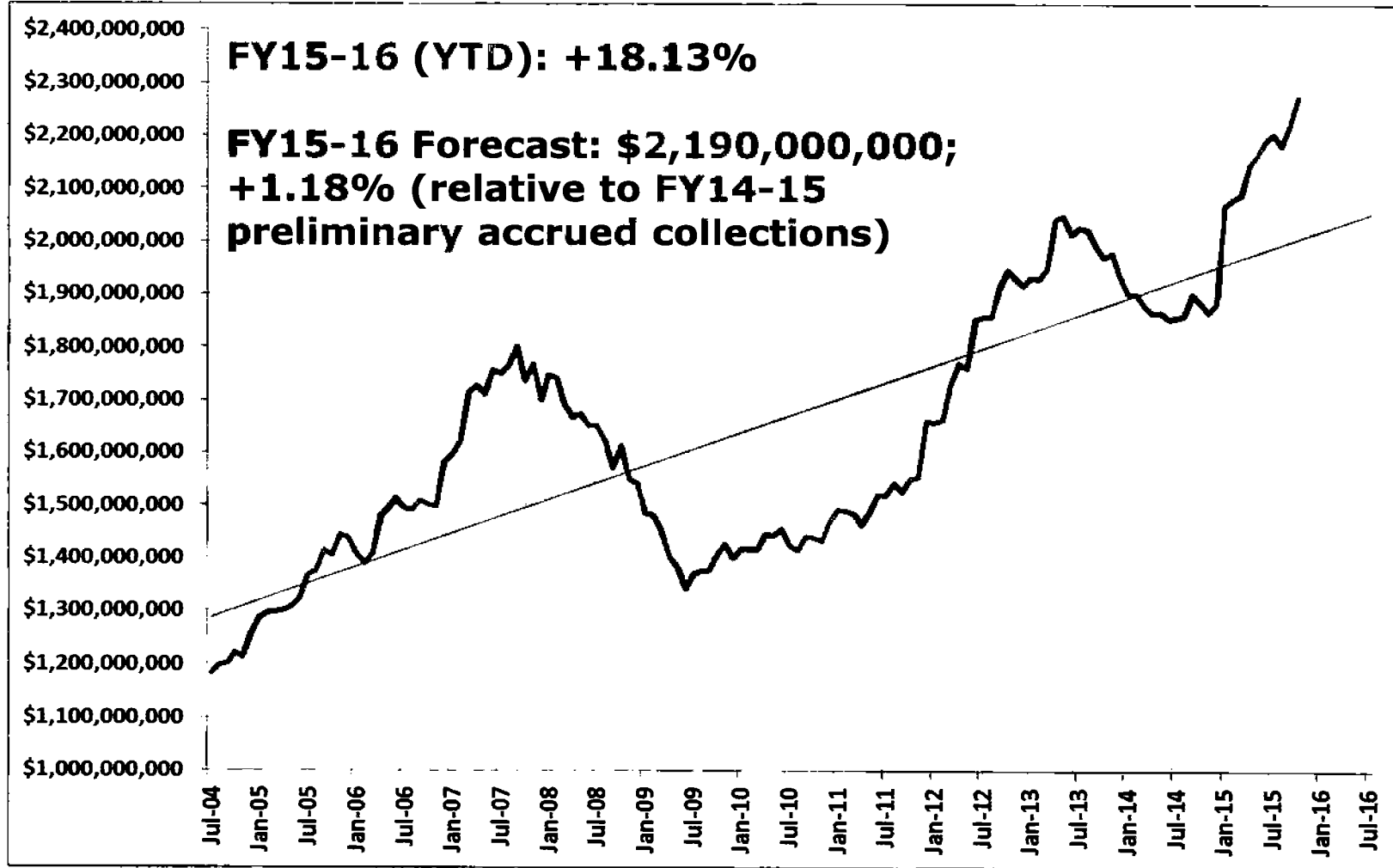


Hall Income Tax – April





Franchise and Excise Taxes (12 month MS)





F&E (After extraordinary growth)

- Since FY68-69, eight years in which F&E growth was 17.0% or better.
- What happened the following year?

<i>Year</i>	<i>Growth Rate</i>	<i>Next Year</i>	<i>Growth Rate</i>
FY71-72	28.7%	FY72-73	30.6%
FY72-73	30.6%	FY73-74	8.3%
FY76-77	17.3%	FY77-78	9.3%
FY83-84	18.4%	FY84-85	25.9%
FY84-85	25.9%	FY85-86	6.8%
FY99-00	20.3%	FY00-01	3.5%
FY06-07	17.0%	FY07-08	-5.6%
FY11-12	22.3%	FY12-13	9.1%
AVG	22.5%	AVG	14.1%
Historically: Each 1.0% in Y1 led to:			<u>0.62%</u>
FY14-15	18.8%	FY15-16 (YTD)	18.1%
Current Year: Each 1.0% leading to:			<u>0.96%</u>





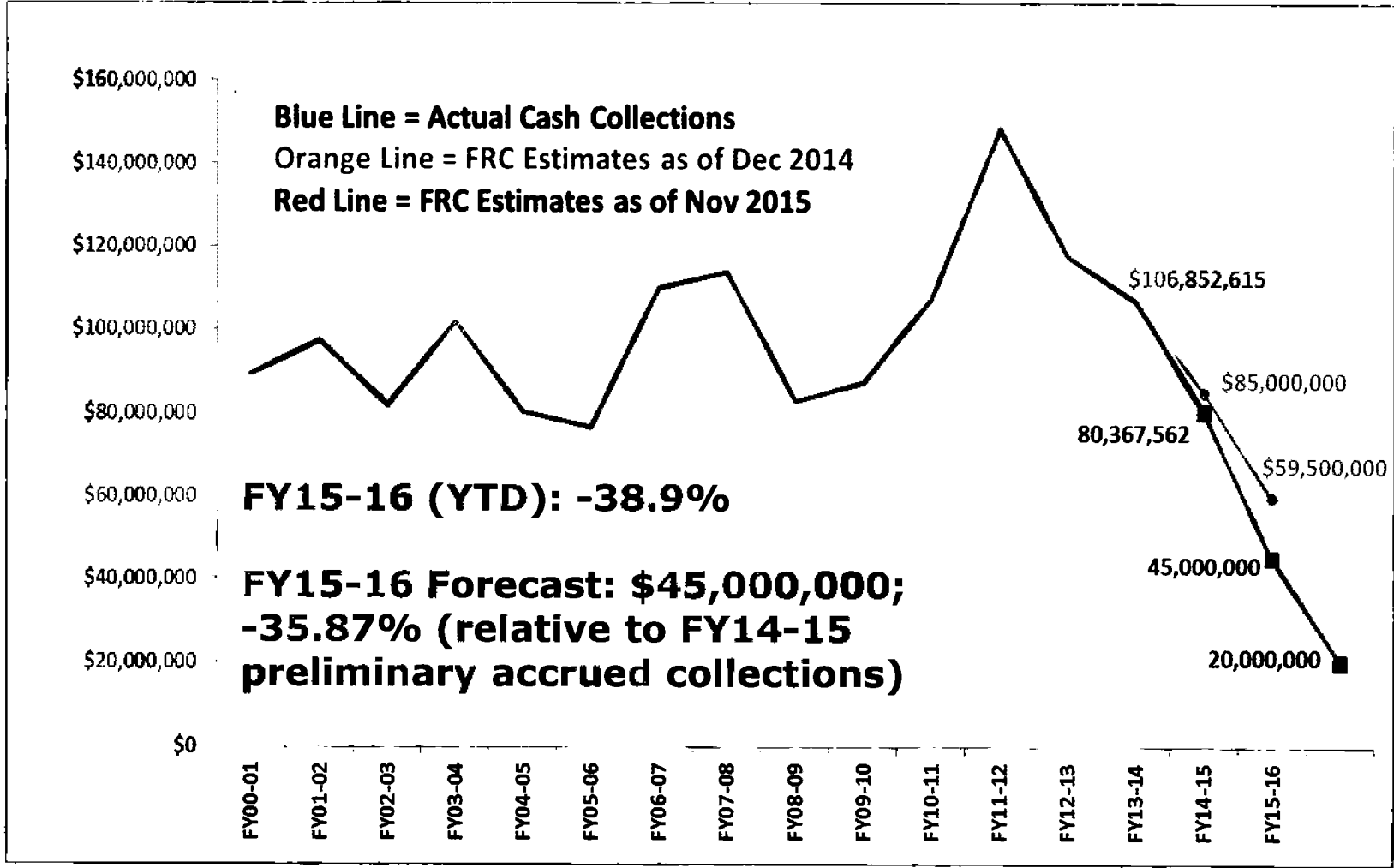
Base Analysis for F&E Taxes

	FY13-14	Growth over FY12-13	FY14-15	Growth over FY13-14	FY15-16	Growth over FY14-15
August	-10.69%	-14.10%	9.25%	7.94%	-65.78%	18.13%
September*	-10.37%		14.95%		13.27%	
October	-33.64%		-37.96%		184.12%	
November	30.61%	-6.98%	-53.43%	21.30%	?	-4.52%
December*	-17.89%		9.88%		?	
January*	-18.87%		131.46%		?	
February	0.45%		31.34%		?	
March*	-11.02%		4.31%		?	
April**	-2.74%		12.27%		?	
May	2.73%		42.74%		?	
June**	3.55%		8.23%		?	
July	2.93%		17.56%		?	
Year-over-Year (cash)		-8.41%		18.76%		FRC Forecast





Inheritance Tax



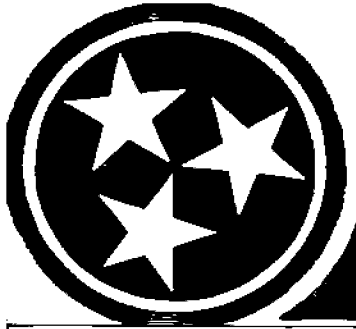


Growth Forecasts: FY15-16 & FY16-17

Tax Source	FY15-16			FY16-17
	FY15-16 YTD Growth (Cash)	Growth Forecast for Remainder of FY15-16 (Cash)	Growth Forecast for FY15-16 (Cash)	Growth Forecast for FY16-17 (Accrual)
Sales Tax	7.48%	5.56%	6.03%	4.52%
Motor Fuels	3.79%	2.09%	2.52%	1.38%
Income	27.75%	-1.78%	-0.93%	10.00%
F&E	18.13%	-4.52%	-0.62%	4.57%
All Other	-4.41%	-1.26%	-2.02%	0.54%
Total	7.01%	2.38%	3.43%	3.50%

***Growth rate forecasts for FY15-16 are relative to FY14-15 cash collections**



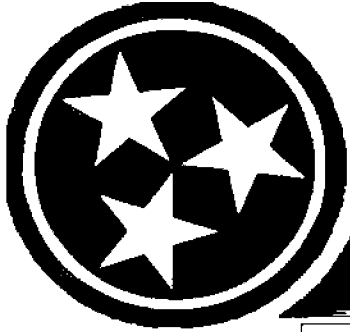


Estimates for FY15-16 & FY16-17

REVENUE SOURCE	ACTUAL PRE - ACCRUAL COLLECTIONS FY14-15	FRC STAFF TAX REVENUE ESTIMATES FY15-16	PERCENT INCREASE OVER FY14-15	FRC STAFF TAX REVENUE ESTIMATES FY16-17	PERCENT INCREASE OVER FY15-16
SALES & USE TAX	\$7,706,059,500	\$8,190,000,000	6.3%	\$8,560,000,000	4.5%
GASOLINE TAX	\$631,824,300	\$651,000,000	3.0%	\$660,500,000	1.5%
MOTOR FUEL TAX	\$165,504,800	\$168,000,000	1.5%	\$170,000,000	1.2%
GASOLINE INSPECTION TAX	\$64,827,700	\$66,200,000	2.1%	\$66,900,000	1.1%
MOTOR VEHICLE REG. TAX	\$261,832,400	\$266,000,000	1.6%	\$270,000,000	1.5%
INCOME TAX	\$303,353,500	\$300,000,000	-1.1%	\$270,000,000	-10.0%
PRIVILEGE TAX - LESS EARMARKED*	\$308,789,900	\$319,000,000	3.3%	\$329,000,000	3.1%
GROSS RECEIPTS TAX: TVA	\$348,601,300	\$348,912,000	0.1%	\$356,000,000	2.0%
GROSS RECEIPTS TAX: OTHER	\$28,722,600	\$26,000,000	-9.5%	\$28,000,000	7.7%
BEER TAX*	\$16,917,200	\$18,100,000	7.0%	\$18,400,000	1.7%
ALCOHOLIC BEVERAGE TAX	\$56,992,800	\$62,000,000	8.8%	\$64,000,000	3.2%
FRANCHISE & EXCISE TAX	\$2,164,486,000	\$2,190,000,000	1.2%	\$2,290,000,000	4.6%
INHERITANCE TAX	\$70,173,100	\$45,000,000	-35.9%	\$20,000,000	-55.6%
TOBACCO TAX	\$263,327,000	\$253,000,000	-3.9%	\$251,000,000	-0.8%
MOTOR VEHICLE TITLE FEES	\$12,098,400	\$18,300,000	51.3%	\$18,500,000	1.1%
MIXED DRINK TAX	\$85,983,000	\$94,000,000	9.3%	\$99,000,000	5.3%
BUSINESS TAX	\$153,340,900	\$143,000,000	-6.7%	\$148,000,000	3.5%
SEVERANCE TAX	\$2,138,900	\$2,000,000	-6.5%	\$2,000,000	0.0%
AMUSEMENT TAX	\$303,800	\$300,000	-1.3%	\$300,000	0.0%
UNAUTHORIZED SUBSTANCE TAX	\$600	\$0	N/A	\$0	N/A
TOTAL REVENUE	\$12,645,277,700	\$13,160,812,000	4.1%	\$13,621,600,000	3.5%

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





FY15-16: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY15-16</u>	<u>FY15-16</u>
SALES & USE TAX	\$8,190,000,000	\$7,727,496,000
GASOLINE TAX	\$651,000,000	\$9,977,000
MOTOR FUEL TAX	\$168,000,000	\$3,191,000
GASOLINE INSPECTION TAX	\$66,200,000	\$19,435,000
MOTOR VEHICLE REGISTRATION TAX	\$266,000,000	\$46,990,000
INCOME TAX	\$300,000,000	\$195,813,000
PRIVILEGE TAX	\$319,000,000	\$316,842,000
GROSS RECEIPTS TAX: TVA	\$348,912,000	\$194,563,000
GROSS RECEIPTS TAX: OTHER	\$26,000,000	\$22,311,000
BEER TAX	\$18,100,000	\$12,205,000
ALCOHOLIC BEVERAGE TAX	\$62,000,000	\$51,253,000
FRANCHISE & EXCISE TAX	\$2,190,000,000	\$1,906,400,000
INHERITANCE TAX	\$45,000,000	\$45,000,000
TOBACCO TAX	\$253,000,000	\$253,000,000
MOTOR VEHICLE TITLE FEES	\$18,300,000	\$15,600,000
MIXED DRINK TAX	\$94,000,000	\$46,947,000
BUSINESS TAX	\$143,000,000	\$143,000,000
SEVERANCE TAX	\$2,000,000	\$846,000
AMUSEMENT TAX	\$300,000	\$300,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$13,160,812,000	\$11,011,169,000





FRC Estimates for FY15-16 Relative to Current Budgeted Estimates

CURRENT FRC STAFF ESTIMATE FOR FY15-16	
SALES TAX	\$8,190,000,000
FRANCHISE & EXCISE TAXES	\$2,190,000,000
ALL FUNDS	\$13,160,812,000
GENERAL FUND	\$11,011,169,000
CURRENT BUDGETED ESTIMATE FOR FY15-16	
SALES TAX	\$7,894,200,000
FRANCHISE & EXCISE TAXES	\$1,937,900,000
ALL FUNDS	\$12,510,600,000
GENERAL FUND	\$10,422,300,000
EST. OVERAGE/(SHORTAGE) COMPARED TO CURRENT BUDGETED ESTIMATE FOR FY15-16:	
SALES TAX	\$295,800,000
FRANCHISE & EXCISE TAXES	\$252,100,000
ALL FUNDS	\$650,212,000
GENERAL FUND	\$588,869,000
ACT. GENERAL FUND FOR FY14-15:	\$10,588,892,800
EST. GENERAL FUND INCREASE OVER FY14-15:	\$422,276,200





FY16-17: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY16-17</u>	<u>FY16-17</u>
SALES & USE TAX	\$8,560,000,000	\$8,076,601,000
GASOLINE TAX	\$660,500,000	\$10,123,000
MOTOR FUEL TAX	\$170,000,000	\$3,228,000
GASOLINE INSPECTION TAX	\$66,900,000	\$19,640,000
MOTOR VEHICLE REGISTRATION TAX	\$270,000,000	\$47,697,000
INCOME TAX	\$270,000,000	\$176,232,000
PRIVILEGE TAX	\$329,000,000	\$326,775,000
GROSS RECEIPTS TAX: TVA	\$356,000,000	\$198,515,000
GROSS RECEIPTS TAX: OTHER	\$28,000,000	\$24,027,000
BEER TAX	\$18,400,000	\$12,407,000
ALCOHOLIC BEVERAGE TAX	\$64,000,000	\$52,907,000
FRANCHISE & EXCISE TAX	\$2,290,000,000	\$2,006,400,000
INHERITANCE TAX	\$20,000,000	\$20,000,000
TOBACCO TAX	\$251,000,000	\$251,000,000
MOTOR VEHICLE TITLE FEES	\$18,500,000	\$15,800,000
MIXED DRINK TAX	\$99,000,000	\$49,444,000
BUSINESS TAX	\$148,000,000	\$148,000,000
SEVERANCE TAX	\$2,000,000	\$846,000
AMUSEMENT TAX	\$300,000	\$300,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$13,621,600,000	\$11,439,942,000





Tennessee Education Lottery

***Estimates for Net Lottery Proceeds &
After-School Funding***

Prepared by:

Robert Currey, Fiscal Review Committee

November 13, 2015





Historical Results

	<i>FY11-12</i>	<i>FY12-13</i>	<i>FY13-14</i>	<i>FY14-15</i>
<i>Total Net Revenue</i>	\$1,221,573,973	\$1,280,366,277	\$1,323,572,632	\$1,372,982,180
<i>Prize Expense</i>	\$770,568,219	\$812,547,301	\$850,790,713	\$881,103,549
<i>Retailer Commissions</i>	\$85,525,965	\$89,258,881	\$92,492,072	\$96,338,232
<i>Operating Expense</i>	\$17,212,674	\$16,916,511	\$17,313,853	\$18,493,366
<i>Other Expenses</i>	\$37,917,640	\$40,101,263	\$39,994,473	\$41,109,343
<i>Total Expenses</i>	\$911,224,498	\$958,823,956	\$1,000,591,111	\$1,037,044,490
<i>Net Lottery Proceeds</i>	\$310,349,475	\$321,542,321	\$322,981,521	\$335,937,690
<i>After-School Funding</i>	\$13,089,186	\$18,170,504	\$14,290,845	\$11,847,864
<i>Total State Proceeds</i>	\$323,438,661	\$339,712,825	\$337,272,366	\$347,785,554





Actual Growth in FY14-15

	<u>FY13-14</u>	<u>FY14-15</u>	<u>Growth</u>
Total Net Revenue	\$1,323,572,632	\$1,372,982,180	3.73%
Total Expenses	\$1,000,591,111	\$1,037,044,490	3.64%
NET LOTTERY PROCEEDS	<u>\$322,981,521</u>	<u>\$335,937,690</u>	<u>4.01%</u>
After-School Proceeds	\$14,290,845	\$11,847,864	-17.09%
TOTAL STATE PROCEEDS	<u>\$337,272,366</u>	<u>\$347,785,554</u>	<u>3.12%</u>





Instant Game Growth in FY14-15

Price Point	Percent of Instant Game Sales	FY13-14 Gross Sales (Millions)	FY14-15 Gross Sales (Millions)	Percent Sales Growth	Dollar Growth (Millions)
\$1	7.7%	\$91.7	\$94.5	3.1%	\$2.8
\$2	17.7%	\$230.9	\$216.4	-6.3%	-\$14.5
\$3	7.5%	\$88.4	\$91.1	3.1%	\$2.7
\$5	23.0%	\$262.1	\$280.7	7.1%	\$18.6
\$10	18.5%	\$193.7	\$225.4	16.4%	\$31.7
\$20	13.6%	\$173.7	\$166.2	-4.3%	-\$7.5
\$25	11.9%	\$108.7	\$145.7	34.0%	\$37.0
Total	100.0%	\$1,149.2	\$1,220.0	6.2%	\$70.8





Growth in Numbers Games – FY14-15

- **CASH 3:**

- *FY13-14 sales: \$57,673,163*
- *FY14-15 sales: \$58,877,821*
- *FY14-15 dollar growth: + \$1,204,658*
- *FY14-15 percent growth: + 2.1%*

- **CASH 4:**

- *FY13-14 sales: \$30,815,666*
- *FY14-15 sales: \$33,359,486*
- *FY14-15 dollar growth: + \$2,543,820*
- *FY14-15 percent growth: + 8.3%*





Hot Lotto Growth in FY14-15

- *FY13-14 sales: \$13,115,294*
- *FY14-15 sales: \$15,349,247*
- *FY14-15 dollar growth: + \$2,233,953*
- *FY14-15 percent growth: + 17.0%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$5,000,000 or More</i>	<i>Jackpot Winners</i>
FY13-14	\$3,895,192	\$8,410,000	37	2
FY14-15	\$5,657,788	\$11,710,000	56	1





Tennessee Cash Growth in FY14-15

- *FY13-14 sales: \$18,342,570*
- *FY14-15 sales: \$19,594,124*
- *FY14-15 dollar growth: + \$1,251,554*
- *FY14-15 percent growth: + 6.8%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$1,000,000 or More</i>	<i>Jackpot Winners</i>
FY13-14	\$385,764	\$1,240,000	5	13
FY14-15	\$650,000	\$1,690,000	16	8





Powerball Growth in FY14-15

- *FY13-14 sales: \$100,950,615*
- *FY14-15 sales: \$87,824,273*
- *FY14-15 dollar growth: - \$13,126,342*
- *FY14-15 percent growth: - 13.0%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$250.0 Million or More</i>	<i>Jackpot Winners</i>
FY13-14	\$118,090,385	\$448,400,000	9	11
FY14-15	\$104,878,846	\$500,000,000	5	14





Mega Millions Growth in FY14-15

- *FY13-14 sales: \$47,042,505*
- *FY14-15 sales: \$39,201,166*
- *FY14-15 dollar growth: - \$7,841,339*
- *FY14-15 percent growth: - 16.7%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$250.0 Million or More</i>	<i>Jackpot Winners</i>
FY13-14	\$98,201,923	\$636,000,000	9	12
FY14-15	\$93,761,905	\$321,000,000	5	6





All Jackpot Games in FY14-15

- *Includes Powerball, Mega Millions, Hot Lotto, and Tennessee Cash*
- *FY13-14 combined sales: \$179,450,984*
- *FY14-15 combined sales: \$161,968,810*
- *FY14-15 net dollar growth: -17,482,174*
- *FY14-15 percent growth: -9.7%*

Game	FY13-14	FY14-15	Difference	Percent Change
Powerball	\$100,950,615	\$87,824,273	(\$13,126,342)	-13.0%
Mega Millions	\$47,042,505	\$39,201,166	(\$7,841,339)	-16.7%
Hot Lotto	\$13,115,294	\$15,349,247	\$2,233,953	17.0%
TN Cash	\$18,342,570	\$19,594,124	\$1,251,554	6.8%
Total	\$179,450,984	\$161,968,810	(\$17,482,174)	-9.7%





Recap for FY14-15

- Total net revenue: \$1,372,982,180; + 3.73% growth*
- Net lottery proceeds: \$335,937,690; + 4.01% growth*
- Majority of growth from instant game products (\$5, \$10 and \$25 price points) – 83% of sales*
- Moderate growth in numbers games (Cash 3 and Cash 4) - 6% of sales*
- Net negative growth in jackpot based games (Powerball, Mega Millions, Hot Lotto, Tennessee Cash) – 11% of sales*





Recent changes for TELC

- Matrix change to Powerball occurred following the October 3rd drawing.*
- Hopefully jackpot cycles for Powerball will be conducive for generating incremental sales and proceeds.*
- Cash 4 Life – new drawing style game introduced November 1st - will generate some new sales; but cannibalization of sales in other games is anticipated (probably Mega Millions, Hot Lotto, and Tennessee Cash).*





FY15-16: Year-to-Date

- ***Total Revenue: + 6.0% (as of 10/31/2015)***
 - ***Instant Games: + 6.9%***
 - ***Cash 3 and Cash 4: + 6.1%***
 - ***Multi-Jurisdictional (PB, MM, HL): 0.9%***
 - ***Tennessee Cash: -12.6%***

- ***Total Expenses: + 4.8% (as of 9/30/2015)***
 - ***Prize Expense: + 5.1%***
 - ***Total Expenses / Total Net Revenue: 74.8%***

- ***Net Lottery Proceeds (NLP): + 10.8% (as of 9/30/2015)***
 - ***Net Lottery Proceeds / Total Net Revenue: 25.2%***





Assumptions for FY15-16

- *No additional changes to Powerball*
- *No changes to MM, Hot Lotto, or TN Cash*
- *No changes to Cash 3 or Cash 4*
- *Introduction of Cash 4 Life on Nov. 1, 2015*
- *Launch of one spotlight instant game in Jan/Feb. 2016*
- *Two more PB jackpot cycles above \$350 million*
- *Two more MM jackpot cycles above \$250 million*
- *No extraordinary changes to the retailer base*
- *No legislative changes*
- *Total Expenses = 75.7% of Total Net Revenue*
- *Net Lottery Proceeds = 24.3% of Total Net Revenue*





FY15-16 Estimates

	Low	Median	Upper
Instant Games (Net)	\$1,147,000,000	\$1,160,000,000	\$1,173,000,000
Cash 3 and Cash 4	\$94,700,000	\$95,500,000	\$96,300,000
PB, MM, Hot Lotto, & Cash 4 Life	\$140,000,000	\$145,000,000	\$150,000,000
Tennessee Cash	\$18,500,000	\$19,000,000	\$19,500,000
Misc. Revenue	\$4,000,000	\$4,100,000	\$4,200,000
Total Net Revenue	\$1,404,200,000	\$1,423,600,000	\$1,443,000,000
Total Expenses (75.7%)	\$1,063,000,000	\$1,077,700,000	\$1,092,400,000
NET LOTTERY PROCEEDS (24.3%)	\$341,200,000	<u>\$345,900,000</u>	\$350,600,000
After-School Funding	\$11,000,000	\$12,000,000	\$13,000,000
TOTAL STATE PROCEEDS	\$352,200,000	<u>\$357,900,000</u>	\$363,600,000





Assumptions for FY16-17

- *No changes to PB, MM, Hot Lotto, or Cash 4 Life*
- *No changes to Cash 3, Cash 4, or TN Cash*
- *No new TN-exclusive online games*
- *Launch of one spotlight instant game Jan/Feb 2017*
- *At least 2 PB jackpot cycles above \$350 million*
- *At least 2 MM jackpot cycles above \$250 million*
- *No extraordinary changes to the retailer base*
- *No legislative changes*
- *Total Expenses = 75.9% of Total Net Revenue*
- *Net Lottery Proceeds = 24.1% of Total Net Revenue*

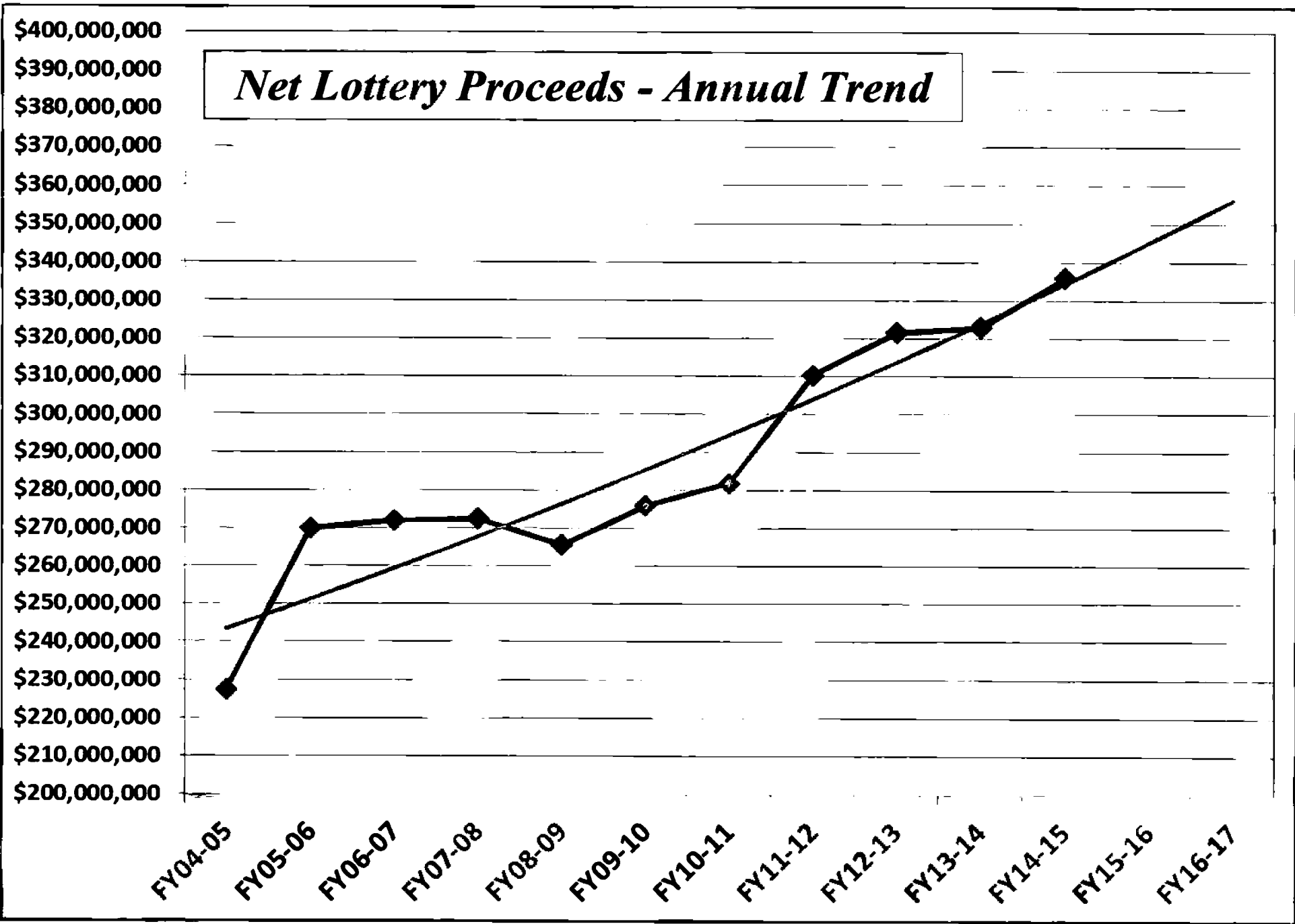


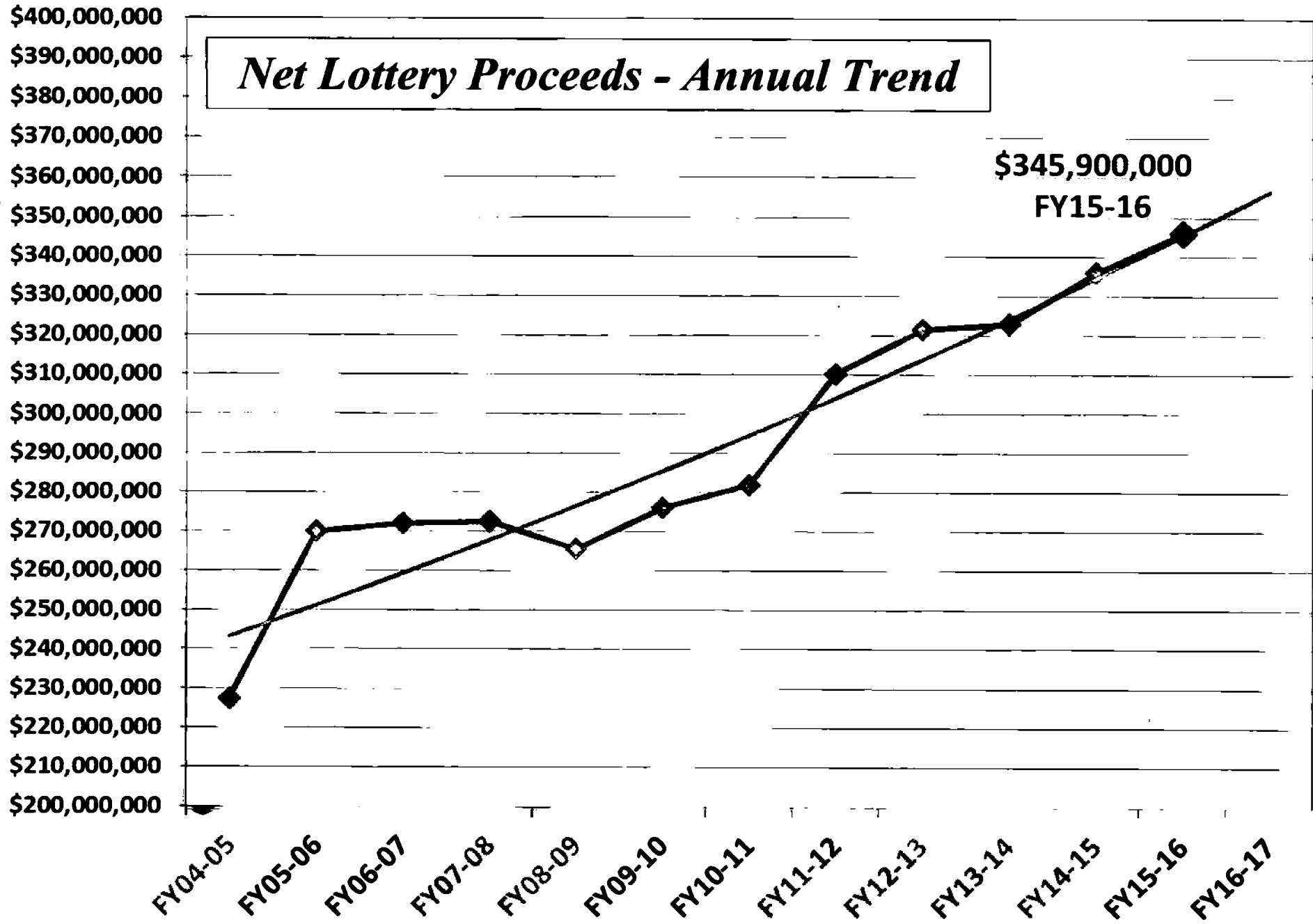


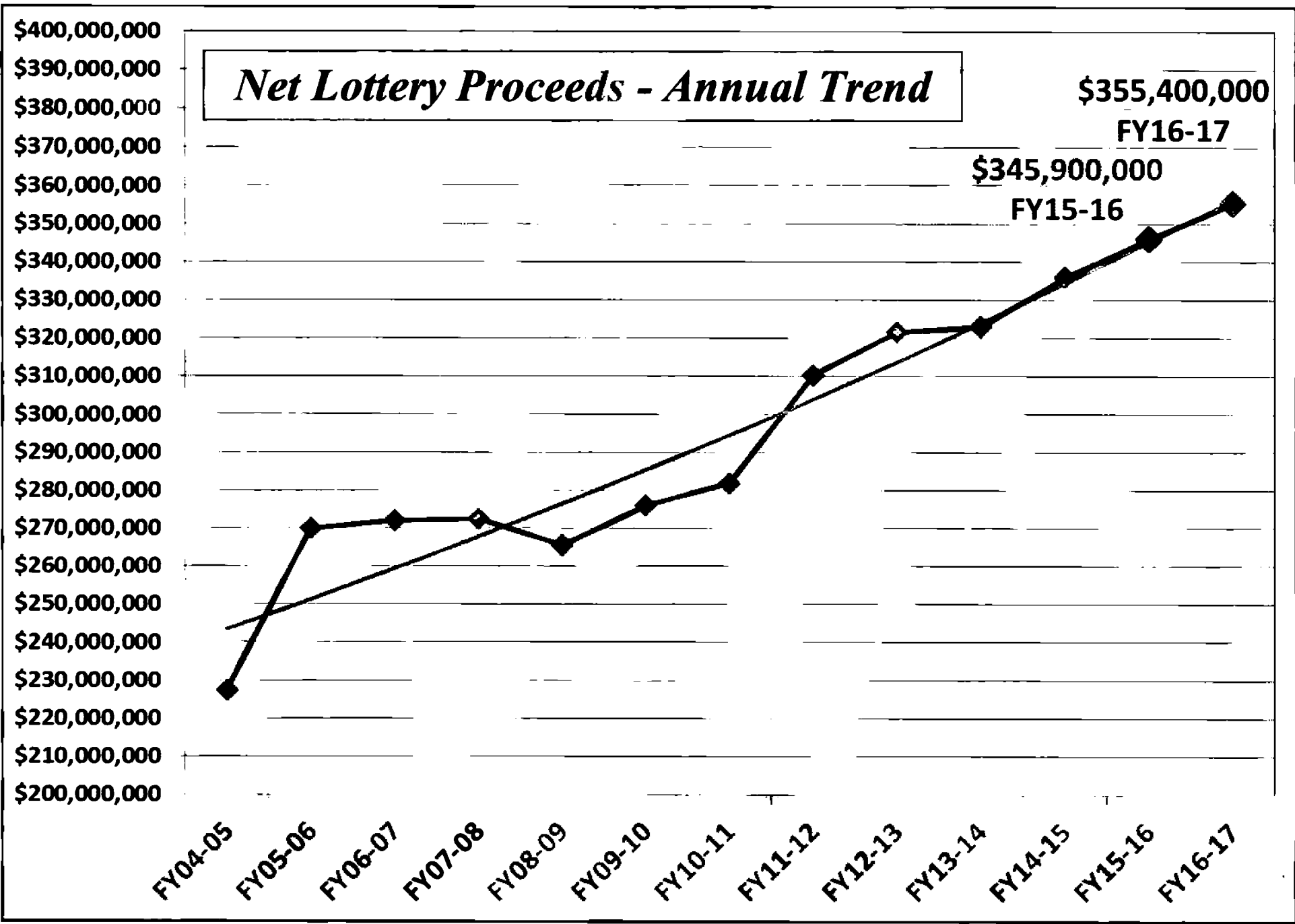
FY16-17 Estimates

	Low	Median	Upper
Instant Games (Net)	\$1,190,000,000	\$1,210,000,000	\$1,230,000,000
Cash 3 and Cash 4	\$95,000,000	\$96,000,000	\$97,000,000
PB, MM, Hot Lotto, and Cash 4 Life	\$139,000,000	\$146,000,000	\$153,000,000
Tennessee Cash	\$18,000,000	\$18,500,000	\$19,000,000
Misc. Revenue	\$4,000,000	\$4,100,000	\$4,200,000
Total Net Revenue	\$1,446,000,000	\$1,474,600,000	\$1,503,200,000
Total Expenses (75.9%)	\$1,097,500,000	\$1,119,200,000	\$1,140,900,000
NET LOTTERY PROCEEDS (24.1%)	\$348,500,000	<u>\$355,400,000</u>	\$362,300,000
After-School Funding	\$11,000,000	\$12,000,000	\$13,000,000
TOTAL STATE PROCEEDS	\$359,500,000	<u>\$367,400,000</u>	\$375,300,000











Subsequent Years

- **Growth beyond FY16-17 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*
 - *Changes in gas prices....*



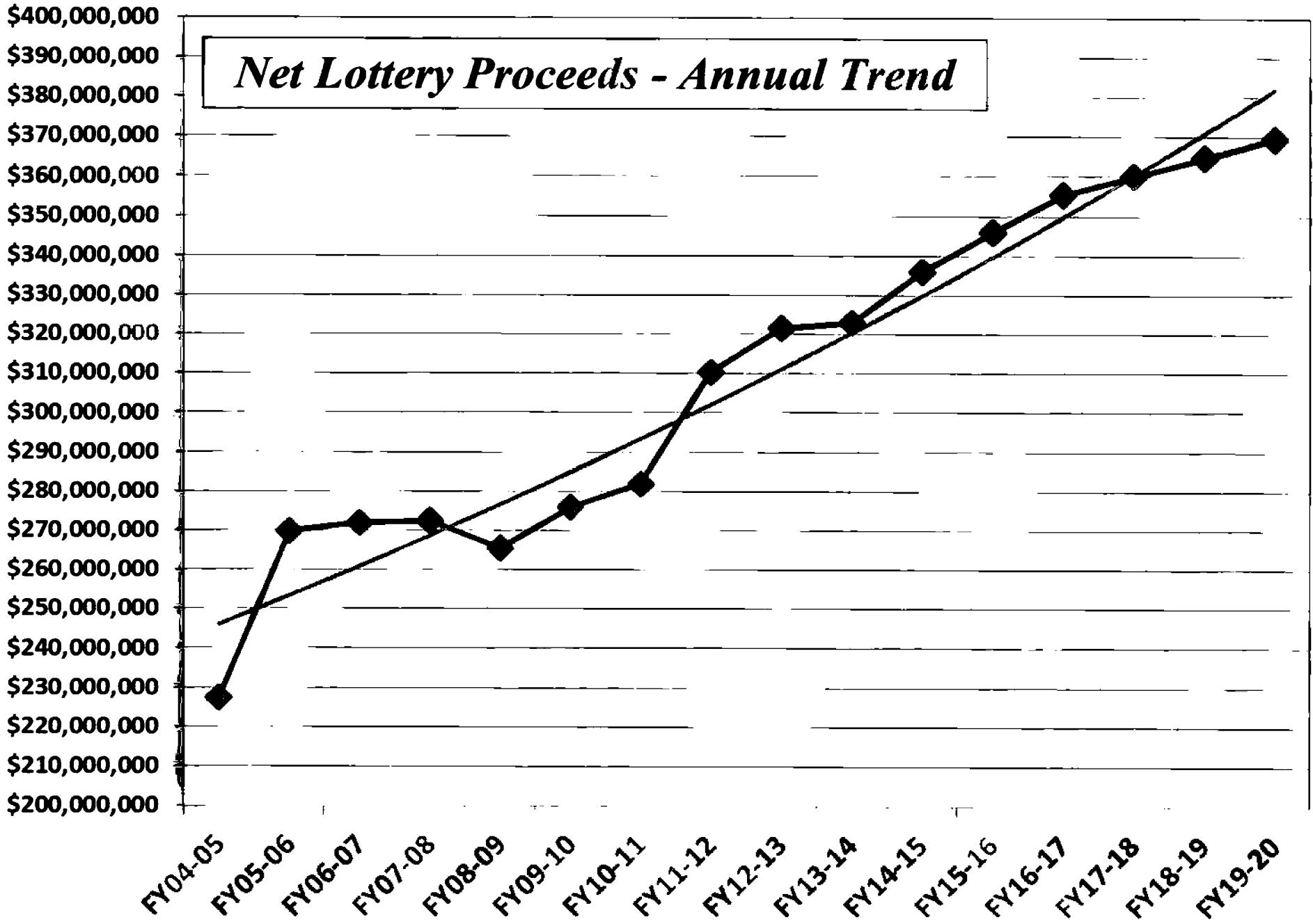


FY17-18, FY18-19, and FY19-20

- *Industry Average for Revenue Growth: 4.0% per year*
- *Industry Average for Proceeds Growth: 1.0% per year*
- *FRC has assumed 4.0% and 1.3% respectively*

	FY17-18	FY18-19	FY19-20
Total Net Revenue	\$1,533,584,000	\$1,594,927,000	\$1,658,724,000
Total Expenses	\$1,173,564,000	\$1,230,227,000	\$1,289,283,000
Net Lottery Proceeds	<u>\$360,020,000</u>	<u>\$364,700,000</u>	<u>\$369,441,000</u>
After-School Funding	\$12,500,000	\$12,500,000	\$12,500,000
Total State Proceeds	<u>\$372,520,000</u>	<u>\$377,200,000</u>	<u>\$381,941,000</u>



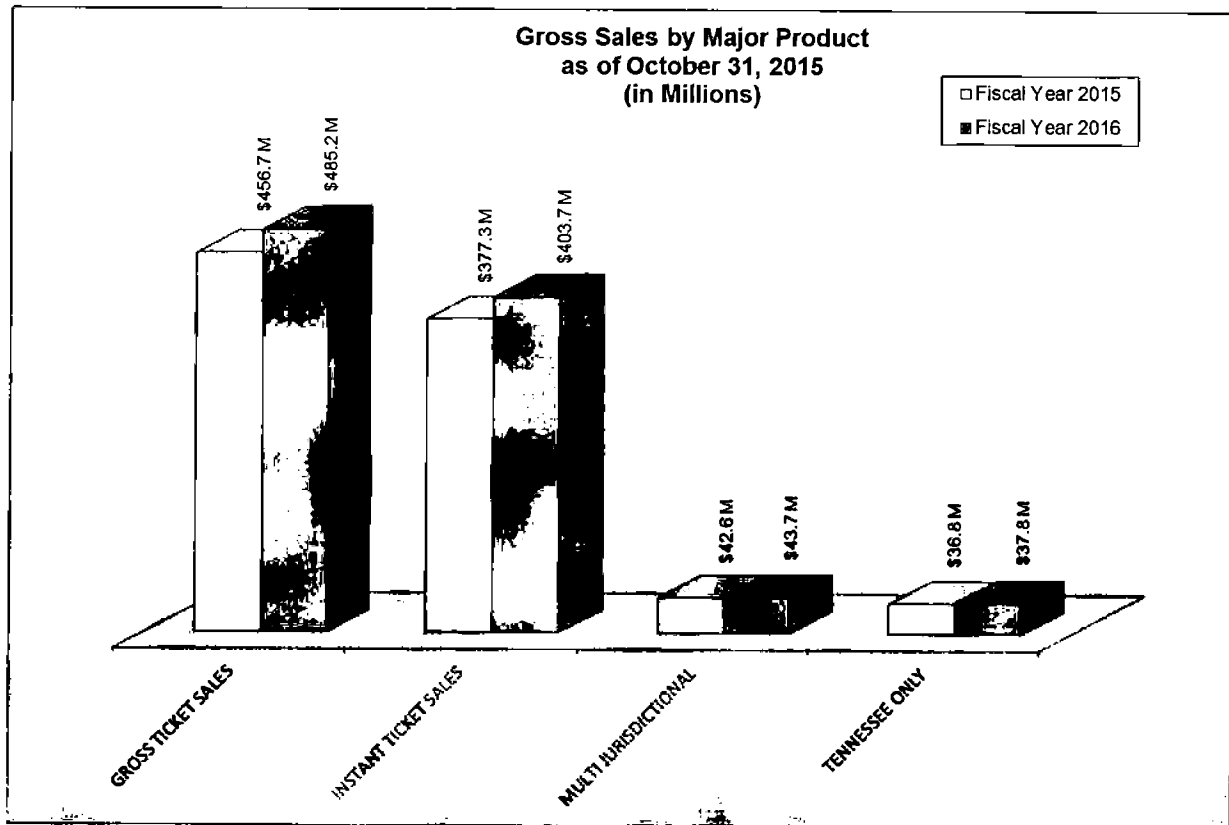


TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
November 13, 2015

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2016, 2017, 2018, 2019 AND 2020

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	As of 10/31/2014 (in millions)
Gross Sales	\$485	\$456
Weekly Average Sales	\$27.6	\$26.0
BY MAJOR PRODUCT:		
INSTANT GAMES	\$404	\$377
MULTIJURISDICTIONAL DRAW-STYLE GAMES		
Powerball	28	24
Mega Millions	11	13
Hot Lotto	4	5
	\$43	\$42
TENNESSEE DRAW-STYLE GAMES		
Cash 3	20	19
Cash 4	12	11
Tennessee Cash	6	7
	\$38	\$37



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

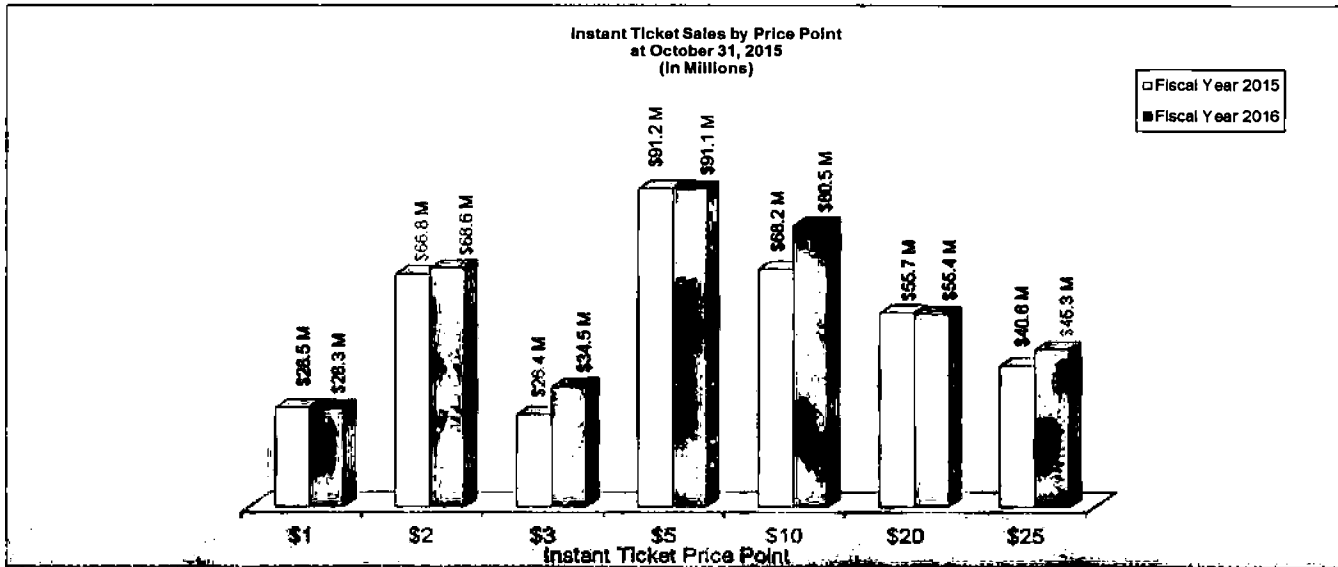
**As of
10/31/2015
(in millions)**

**FY 2016
Projected
Sales Range
(in millions)**

INSTANT GAMES

\$ 403.7

\$1,277 - \$1,287



- *Instant tickets* are 83% of our product mix at October 31, 2015.
- *Instant ticket sales* were \$403.7 million or \$22.9 million per week at October 31, 2015 compared to \$377.3 million or \$21.5 million per week the prior year, representing a 7% increase in instant ticket sales year over year.
- The current percentage of sales is primarily related to player preferences. TEL continues to see instant ticket sales increases driven by the success of launching families of games. At the \$3 price point, TEL added to the Jumbo Bucks family of games with Jumbo Bucks Bingo. Other price points, \$2, \$5 and \$10 saw growth related to the Jackpot and Mayhem families.
- Fiscal year 2016 *Instant tickets* are projected to be between \$1.277 billion and \$1.287 billion.
- TEL anticipates launching approximately 51 games in fiscal year 2016. 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 67.7% for fiscal year 2016, which is consistent with the prior year.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

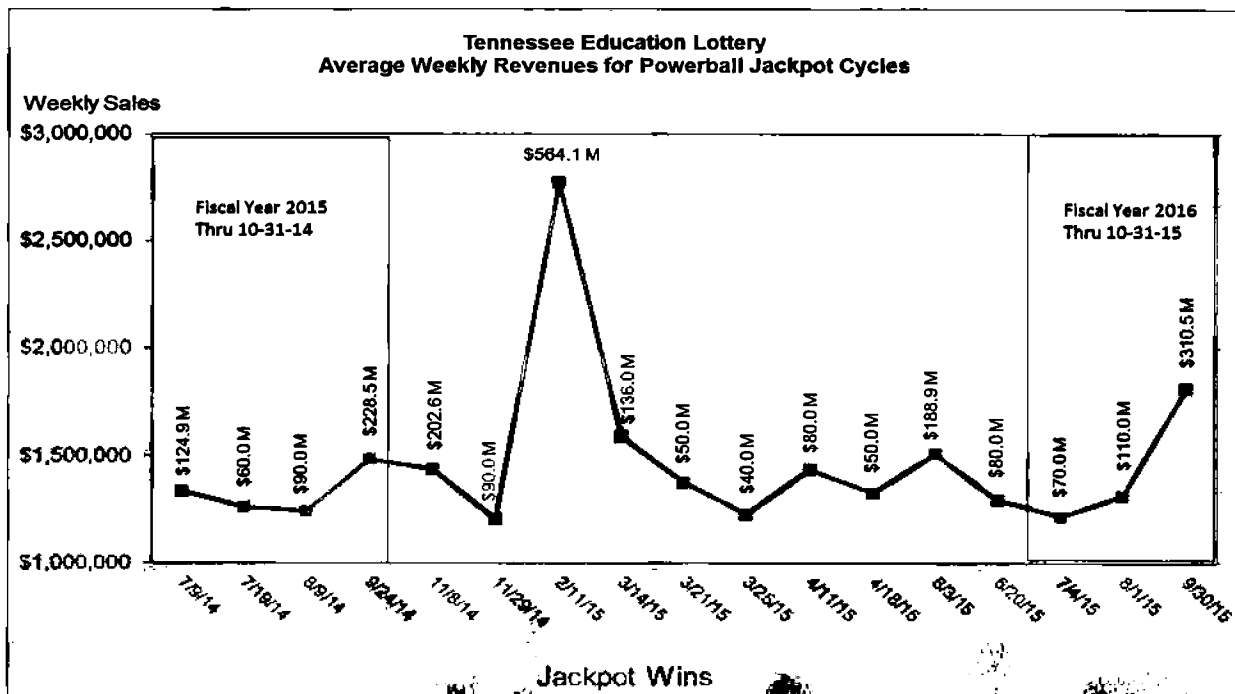
MULTI-JURISDICTIONAL GAMES

Multi-jurisdictional games, *Powerball*, *Mega Millions* and *Hot Lotto* were \$43.7 million at October 31, 2015 compared to \$42.6 million in the prior year, representing approximately 9% of gross sales.

Multi-jurisdictional sales year over year are directly impacted by the size of the games' jackpots.

	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
POWERBALL	\$28.0	\$84 - \$90

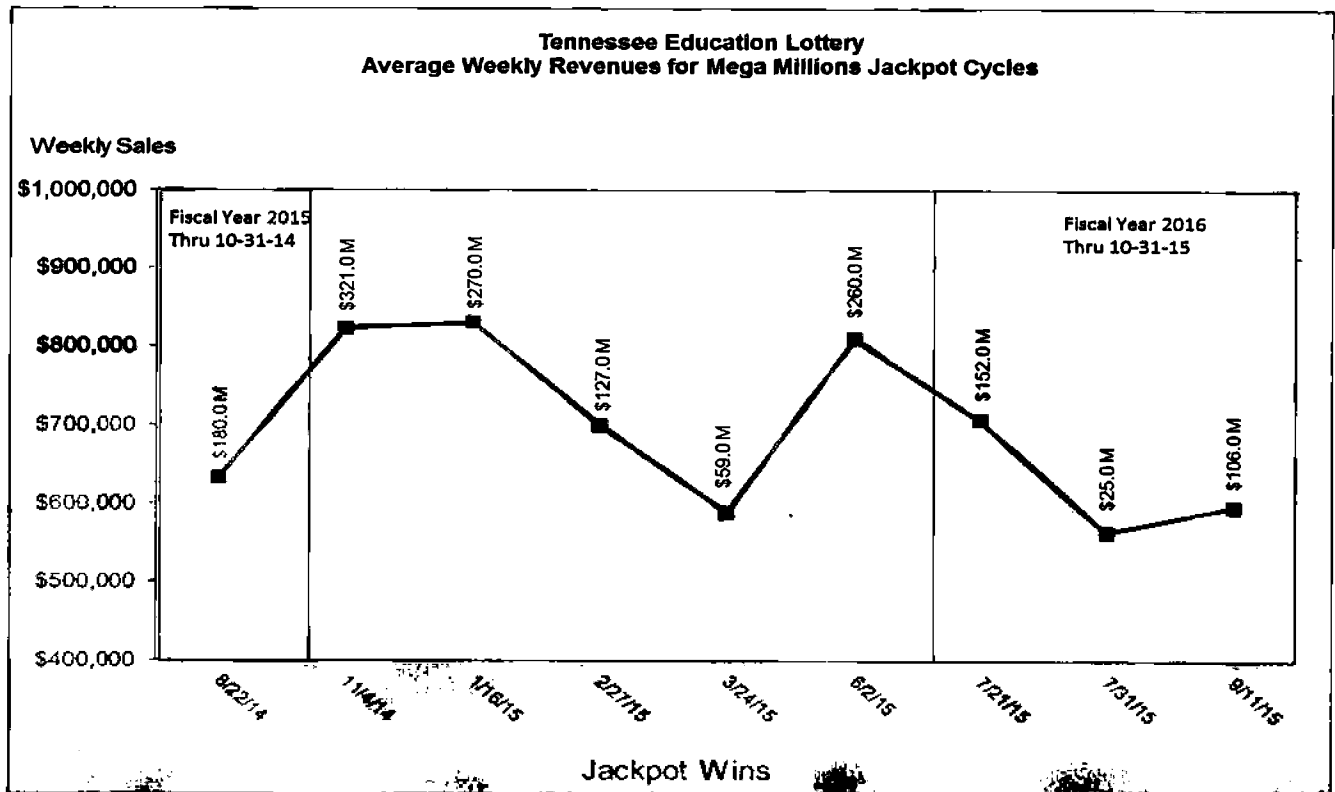
- *Powerball* is currently sold in 47 jurisdictions, including the District of Columbia, Puerto Rico and U.S. Virgin Islands.
- TEL's *Powerball* sales were \$28.0 million compared to the prior year's sales of \$24.1 million for the first four months. The increase primarily results from a \$310 million jackpot to date in the first four months of fiscal year 2016 compared to the first four months of the prior year.
- In October 2015, a game matrix change was implemented with the expectations of creating larger jackpot cycles.
- Our fiscal year 2016 high range projection includes one jackpot cycle reaching the \$500 million range.



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
MEGA MILLIONS	\$11.3	\$34 - \$36

- *Mega Millions* is currently sold in 46 jurisdictions, including the District of Columbia and U.S. Virgin Islands.
- The fiscal year 2016 *Mega Millions* game to date has generated three jackpots below the expected average jackpot range of \$200 - \$225 million. As a result, sales are down 11% at this time.
- *Mega Millions* weekly sales are projected at \$650 thousand for the full fiscal year 2016 consistent with current sales trends.
- TEL does project the *Mega Millions* product to generate one or two jackpots of at least \$250 million to help reach the \$34 to \$36 million fiscal year 2016 sales range.



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 <u>(in millions)</u>	FY 2016 Projected Sales Range <u>(in millions)</u>
<i>HOT LOTTO</i>	\$4.3	\$13.0 - \$15.0

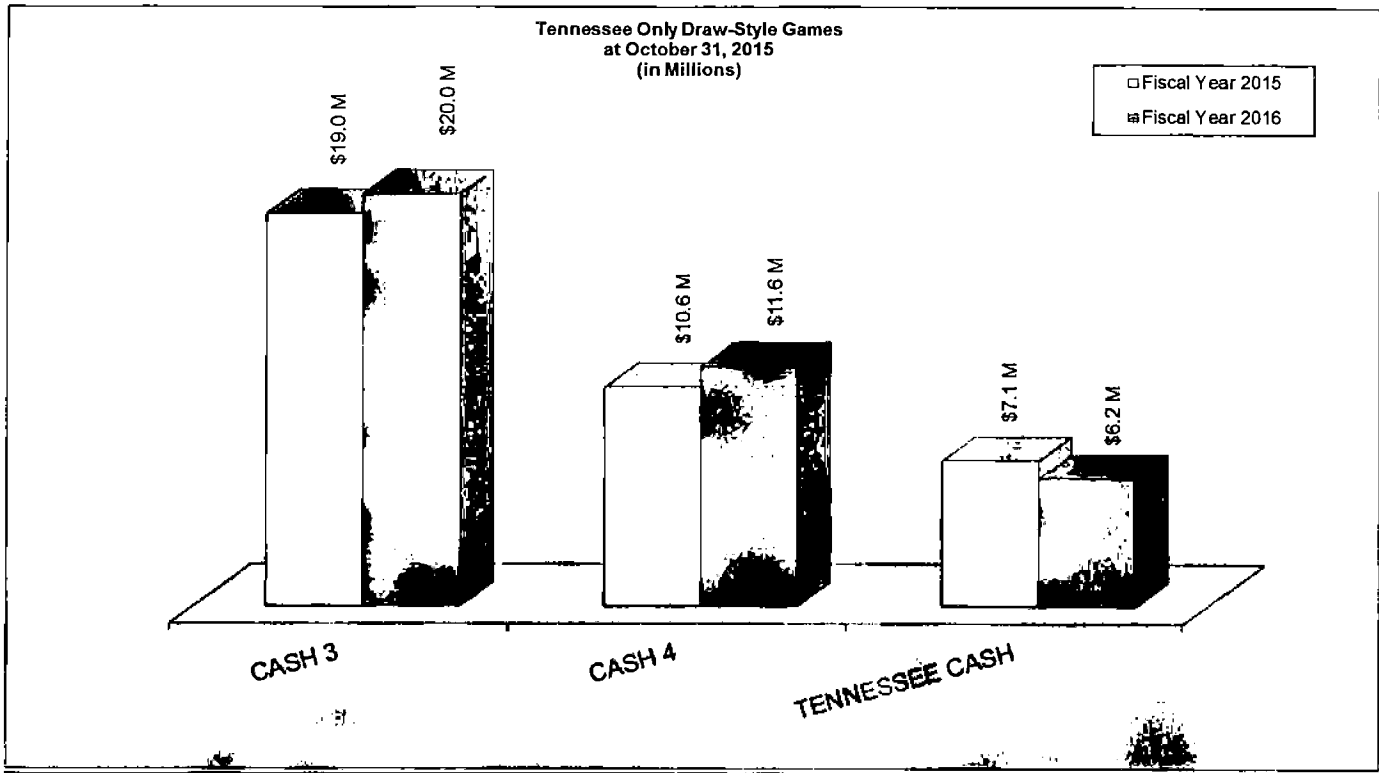
- *Hot Lotto* is currently sold in 15 jurisdictions, including the District of Columbia.
- *Hot Lotto*, at this time, features all cash (not annuitized) jackpots starting at \$1 million, with expected jackpot cycles between \$5 and \$6 Million.
- The last *Hot Lotto* jackpot won was on July 1, 2015 for \$9.8 million. That jackpot cycle generated incremental sales in May and June of fiscal year 2015. The current jackpot cycle for fiscal year 2016 is at \$3.4 million.
- TEL expects normal jackpot trending and a consistent revenue stream between \$250 to \$290 thousand weekly for the rest of fiscal year 2016.

	FY 2016 Projected Sales Range <u>(in millions)</u>
<i>CASH 4 LIFE</i>	\$9 - \$11

- *Cash 4 Life* is currently sold in 5 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!
- Players select five numbers from 1 to 60 and one CASH BALL® number from 1 to 4. If you match any of the 9 winning combinations - you win!
- Drawings are held on Monday and Thursday and can be viewed on TEL's website at tnlottery.com.
- The fiscal year 2016 projected sales range between \$9 -\$11 million is primarily based on sales data from the four states that have been selling the game, with no adjustment for possible cannibalization of TEL's existing draw-style games.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

<i>TENNESSEE ONLY DRAWING-STYLE GAMES</i>	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
	\$37.8	\$111 - \$116



At October 31, 2015, sales for this product category were \$37.8 million compared to the prior period's \$36.7 million, representing approximately 7.5% of gross sales.

Cash 3 and Cash 4

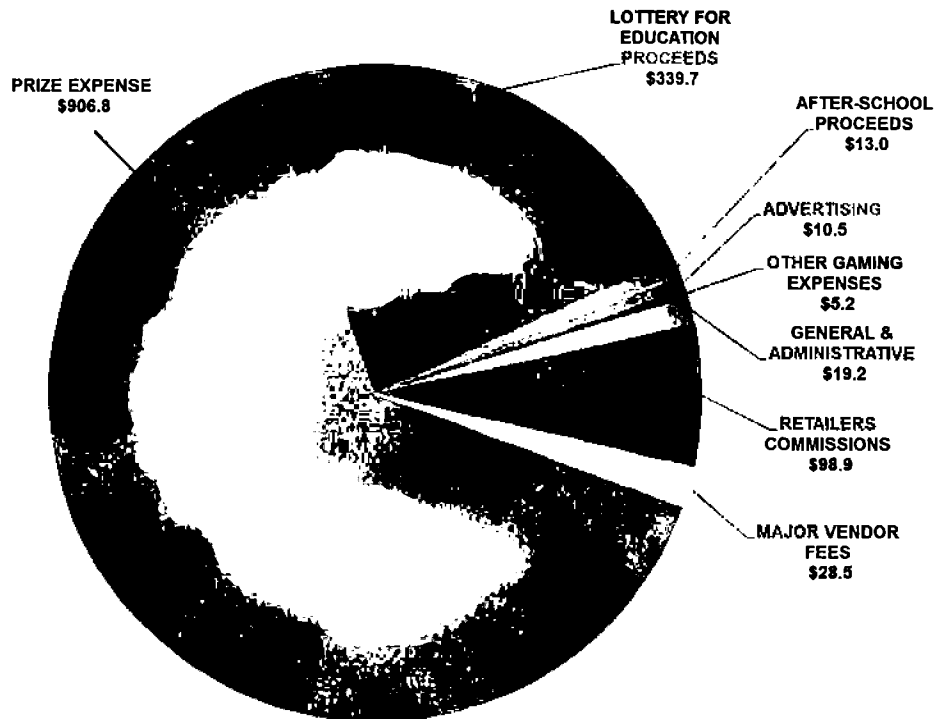
- *Cash 3* and *Cash 4* games are drawn three (3) times daily, six (6) days a week, and once on Sunday.
- In the first four months of fiscal year 2016, TEL has seen a net increase of 6.6% for the *Cash 3* and *Cash 4* products.
- TEL is projecting sales in the range of \$95 and \$98 million for the full 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 2016 to be between \$16 and \$18 million.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR 2016 BUDGETED EXPENSES
(in millions)**



Direct Gaming-Related Expenses

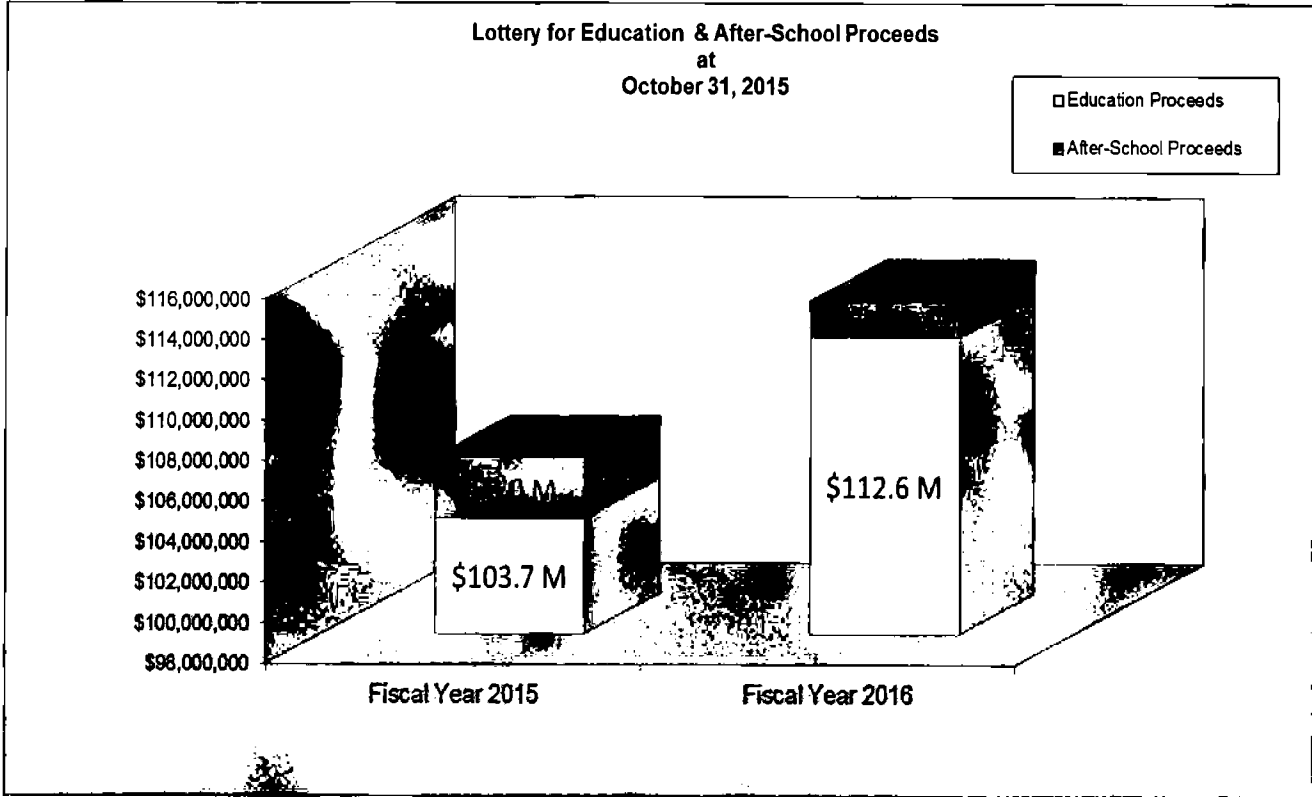
- Aggregate Prize Expense for all Games is projected at **59.8%** of Total Revenues.
- Aggregate Prize Expense for Instant Games is projected at **67.7%** of Total Revenues.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues.
- Retailer sales commissions are **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/related services and instant ticket/related services, respectively.

The new rates went into effect on July 1, 2014 and January 4, 2015, respectively. For fiscal year 2016, we project savings of approximately \$3 million under the new contract rates.

Non-Direct Expenses

- Non-direct expenses are budgeted at **\$34.9 million** or **2.3%** of Gross Sales.
 - Advertising expenses are budgeted at **\$ 10.5 million**.
 - Other Gaming expenses are budgeted at **\$ 5.2 million**.
 - General and Administrative expenses are budgeted at **\$ 19.2 million**.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**



Lottery for Education Proceeds

- \$112.6 million as of 10/31/2015
- \$103.7 million as of 10/31/2014

Projected Fiscal Year 2016

\$342 million - \$350 million

After-School Program Proceeds

- \$1.8 million as of 10/31/2015
- \$3.0 million as of 10/31/2014
- Represents actual/realized unclaimed monies
- Significantly impacted by:
 - 1) timing of instant games' closings
 - 2) large drawing-style game prizes not claimed

Projected Fiscal Year 2016

\$12- 13 million

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	<u>FY 16 Actuals at 10/31/15</u>	<u>FY 16 Low Projections</u>	<u>FY 16 High Projections</u>	<u>FY 16 Approved Budget</u>	<u>FY 2015 Actuals</u>
Instant Ticket Sales	\$ 403,673,000	\$ 1,277,500,000	\$ 1,287,250,000	\$ 1,265,602,000	\$ 1,220,122,000
Tennessee Only	37,799,000	111,750,000	115,750,000	109,000,000	111,832,000
Multi Jurisdictional	43,706,000	140,250,000	152,750,000	141,500,000	143,832,000
GROSS TICKET SALES	\$ 485,178,000	\$ 1,529,500,000	\$ 1,555,750,000	\$ 1,516,102,000	\$ 1,475,786,000
Less: Tickets Provided as Prizes	\$ (35,731,000)	\$ (111,412,000)	\$ (112,442,000)	\$ (110,651,000)	\$ (106,854,000)
Net Ticket Sales	\$ 449,447,000	\$ 1,418,088,000	\$ 1,443,308,000	\$ 1,405,451,000	\$ 1,368,932,000
Other Revenue	1,311,000	3,632,000	3,632,000	3,632,000	4,050,000
TOTAL LOTTERY PROCEEDS	\$ 450,758,000	\$ 1,421,720,000	\$ 1,446,940,000	\$ 1,409,083,000	\$ 1,372,982,000
DIRECT EXPENSES					
Prize Expense	288,578,000	916,179,000	930,936,000	906,833,000	881,104,000
Retailer Commissions	31,653,000	99,788,000	101,503,000	98,901,000	96,338,000
Vendor Fees	8,995,000	28,830,000	29,224,000	28,571,000	28,348,000
Direct Expense	\$ 329,226,000	\$ 1,044,797,000	\$ 1,061,663,000	\$ 1,034,305,000	\$ 1,005,790,000
Non-Direct Expenses	\$ 8,887,000	\$ 35,061,000	\$ 35,061,000	\$ 35,061,000	\$ 31,254,000
TOTAL EXPENSES	\$ 338,113,000	\$ 1,079,858,000	\$ 1,096,724,000	\$ 1,069,366,000	\$ 1,037,044,000
LOTTERY FOR EDUCATION PROCEEDS	\$ 112,645,000	\$ 341,862,000	\$ 350,216,000	\$ 339,717,000	\$ 335,938,000
AFTER SCHOOL PROGRAMS	\$ 1,778,000	\$ 12,000,000	\$ 13,000,000	\$ 13,000,000	\$ 11,847,000

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

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

	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Total Lottery Proceeds	\$1,576- \$1,600 Million	\$1,600- \$1,636 Million	\$1,636- \$1,663 Million	\$1,663- \$1,700 Million
Lottery for Education Proceeds	\$348 - \$357 Million	\$355- \$366 Million	\$362- \$375 Million	\$369- \$384 Million
After-School Programs Proceeds	\$13 - \$14 Million	\$14 - \$15 Million	\$14 - \$15 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 3.5 % compared to the lottery industry's beneficiary funding growth of 1.5%, excluding the highest and lowest growth years to adjust for anomalies.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we project Lottery for Education proceeds growth in Fiscal Years 2017, 2018, 2019 and 2020 to average a low of 2% to a high of 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 13, 2015

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, and the Math & Science Teacher Loan Forgiveness Program.

Fiscal Year	TELS Expenditures Low	TELS Expenditures Baseline	TELS Expenditures High	Recipients
2014-15 actual	N/A	\$304.1M	N/A	104,000
2015-16 estimated	\$301.1M	\$307.2M	\$316.4M	105,100
2016-17 estimated	\$304.1M	\$310.3M	\$319.6M	106,200
2017-18 estimated	\$307.1M	\$313.4M	\$322.8M	107,200
2018-19 estimated	\$310.2M	\$316.5M	\$326.0M	108,300
2019-20 estimated	\$313.3M	\$319.7M	\$329.3M	109,400
2020-21 estimated	\$316.4M	\$322.9M	\$332.6M	110,500

**Does not include supplemental funding of \$6.8M for TSAA and administrative costs of \$3.8M.*

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.

As previously mentioned, there are changes that take effect for the current 2015-16 academic year. The HOPE Scholarship award amounts for entering freshmen have changed and the Wilder-Naifeh Reconnect program has begun.

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

DATE: November 13, 2015

SUBJECT: Request for \$23,000 from Net Lottery Proceeds for Lottery Scholarship Day for FY 2016-2017

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 2016-2017 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, 2015**



PREPARED FOR THE
STATE FUNDING BOARD

November 13, 2015

PREPARED BY
TREASURY DEPARTMENT
CASH MANAGEMENT DIVISION

Tim McClure, CTP

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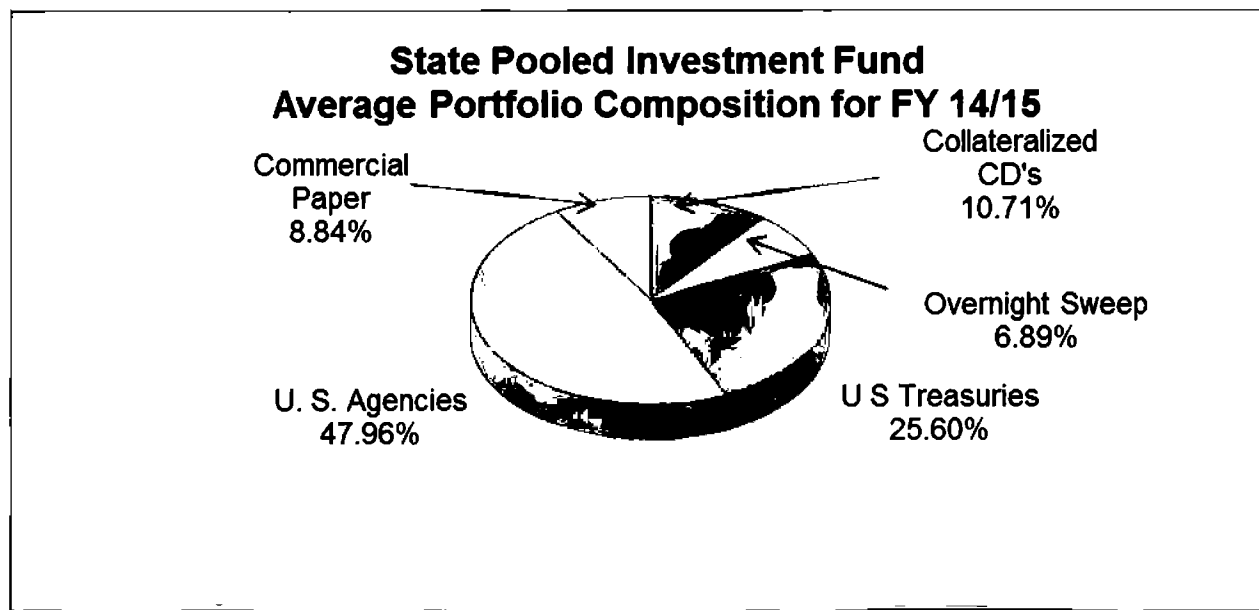
TENNESSEE TREASURY DEPARTMENT
State Pooled Investment Fund Report
For the fiscal year ended June 30, 2015

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.

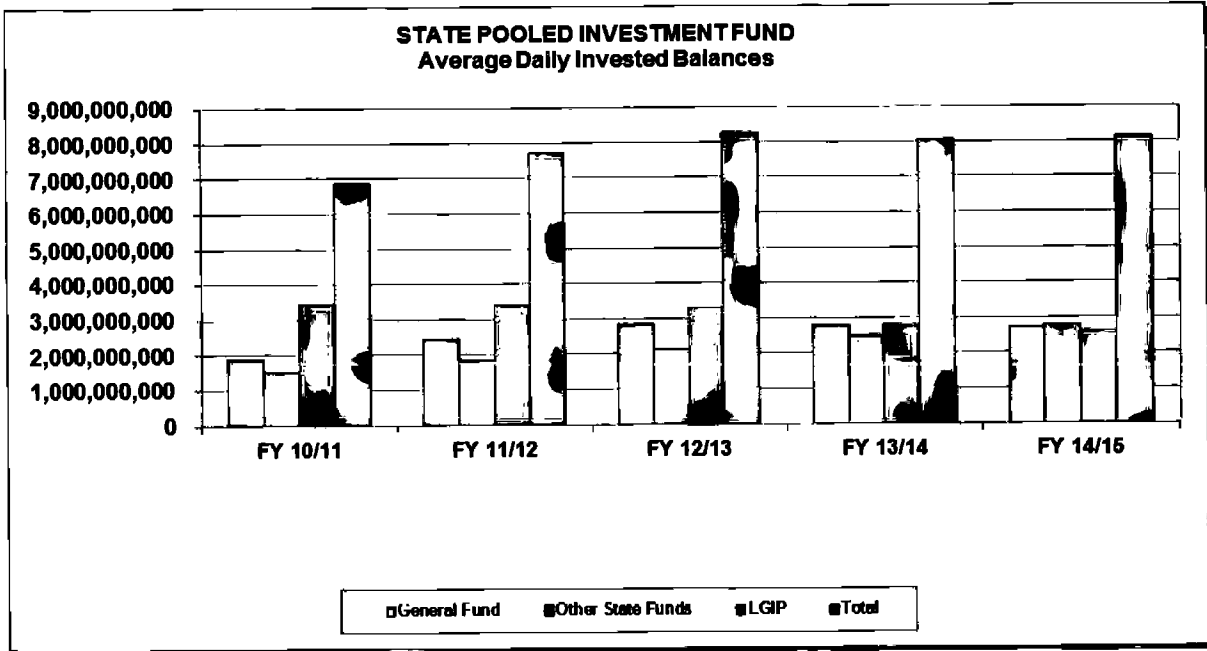
Portfolio Composition

The State Pooled Investment Fund had a monthly average of \$ 8.108 billion invested for the fiscal year ended June 30, 2015. The following chart shows the composition of the average portfolio.



Notice in the graph that the average invested in commercial paper during the year was 8.84% of the SPIF which is within the policy limitation (total of 40% of the SPIF, 35% up to 45 days and 5% overnight). The investment policy provides for investment in collateralized certificates of deposit as a priority over other investments to the extent in-state financial institutions want the CD's at the state's assigned rate. Typically, U. S. Agency securities are acquired instead of Treasuries when the yield spread makes them more attractive to own. Again this year, limited supply of other approved securities was the reason more Treasuries were acquired. In fact, Treasuries have been a major component of the SPIF for nearly five years.

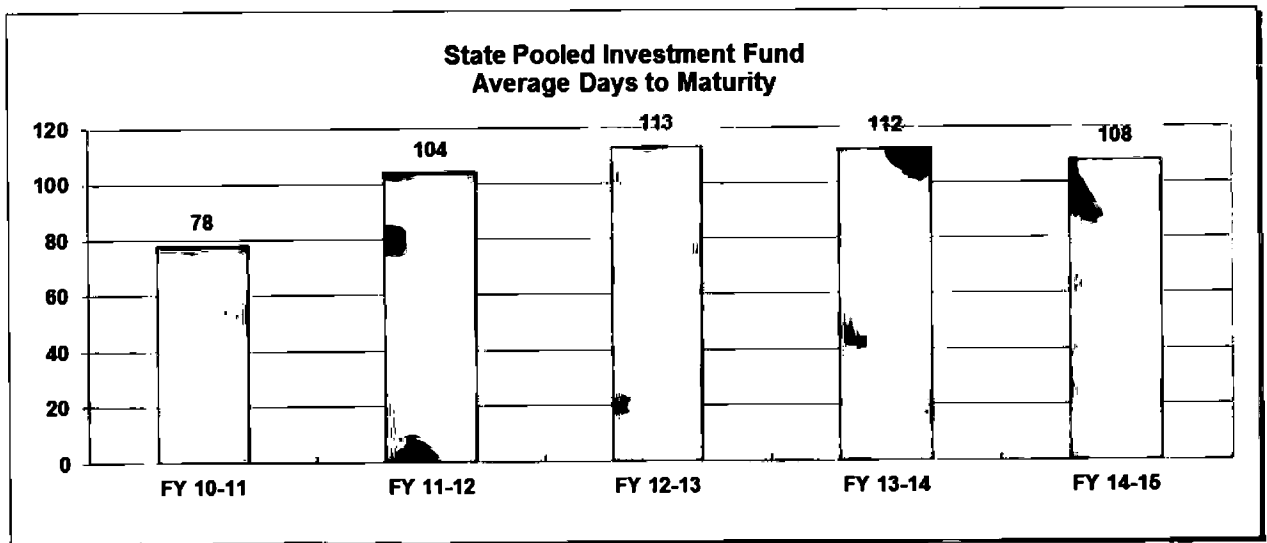
The following chart shows the average monthly balances in the state pooled investment fund for the last five years. At 6/30/15, the LGIP balance comprised 28.9% of the state pooled investment fund. The actual balance of funds available to invest on behalf of the General fund (Unrestricted Accounts) increased slightly from \$3.370 billion at 6/30/14 to \$3.61 billion at 6/30/15.



Liquidity

The Governmental Accounting Standards Board (GASB) issued a statement on "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" (GASB Statement 31) which impacted the investment policy for the State Pooled Investment Fund (SPIF). The SPIF is 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 following chart shows the dollar weighted average maturity of the SPIF over the past five years.

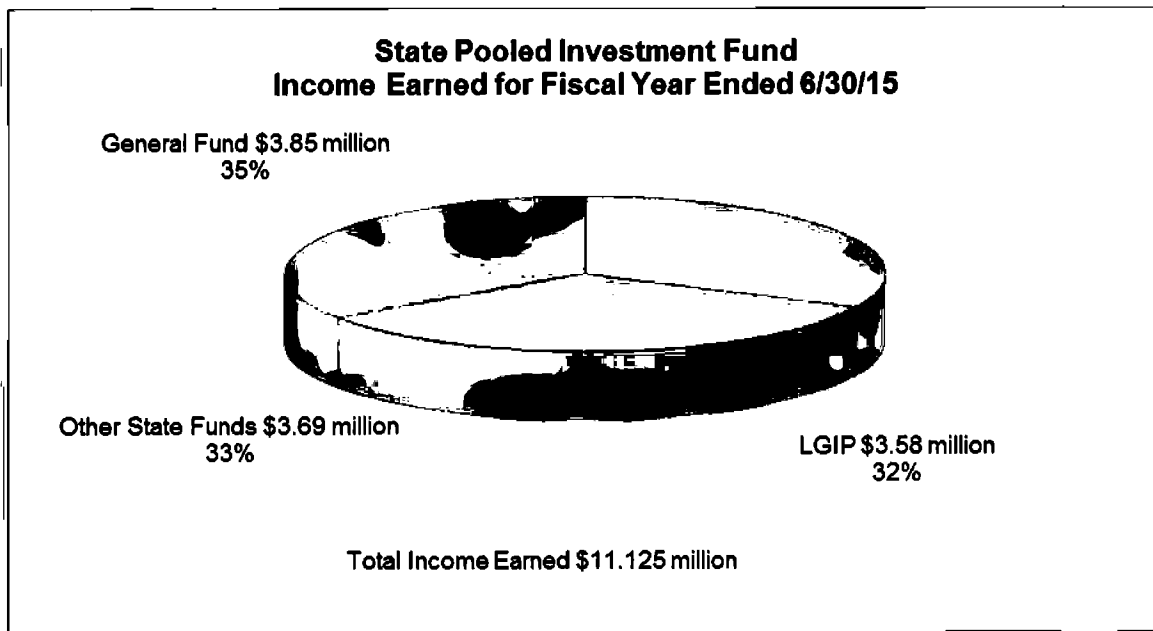


The additional liquidity requirements that were added in 2010 by the SEC also required that no more than 5% of the portfolio can be invested in illiquid securities, at least 10% of the portfolio must be invested in daily liquid assets, and at least 30% of the portfolio must be invested in weekly liquid assets. At June 30, 2015, the SPIF had 0% invested in illiquid securities, 38.3% was invested in daily liquid assets, and 78.5% was invested in weekly liquid assets.

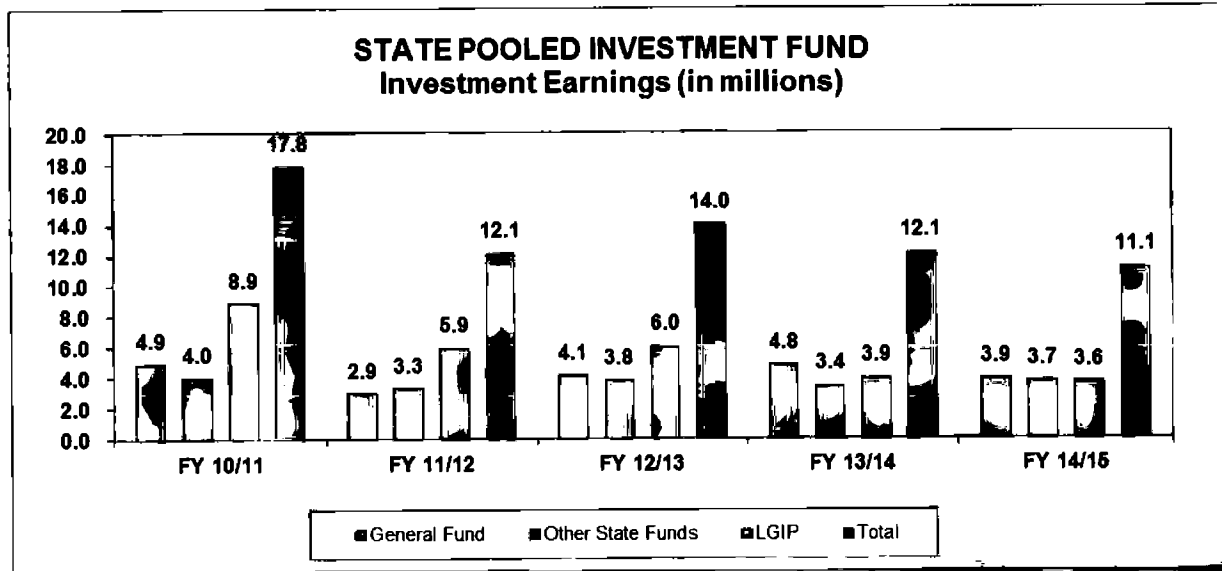
Stress Test Results: During the fiscal year, the SPIF was stress-tested in accordance with 2a-7 requirements. The tests revealed that in each case the portfolio could handle the largest 5-day withdrawal in the history of the fund AND tolerate an interest rate shift of 1.25% without declining in value 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% without declining in value more than .05%. The scenarios tested are unlikely and near improbable, but that is the reason for the test. 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, 2015 totaled \$11.125 million. The distribution of earnings as shown on the following pie chart was \$3.85 million to the General fund; \$3.58 million to the LGIP; and, \$3.69 million to Other State funds (accounts specified by statute, court order or regulation to receive interest earnings on their balances). *(amounts shown are unaudited as of this writing)*



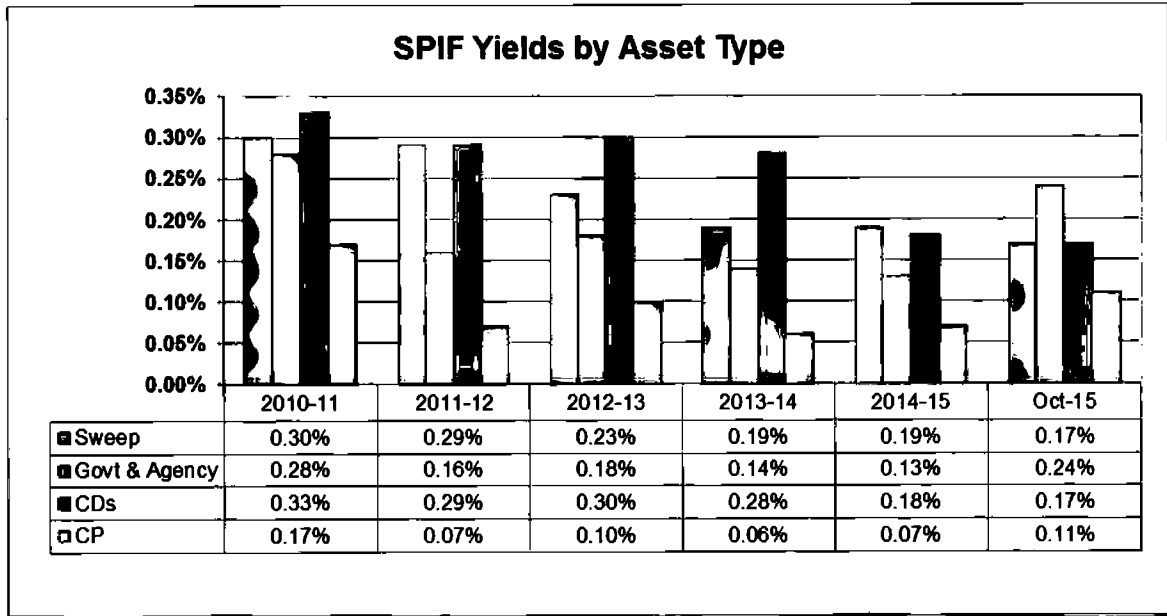
The monies in the SPIF represent the liquid working capital available to the State of Tennessee to cover expenditures until additional revenues are collected. Earnings of the state pooled investment fund for the last five years are shown in the following chart. (amounts shown are unaudited as of this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



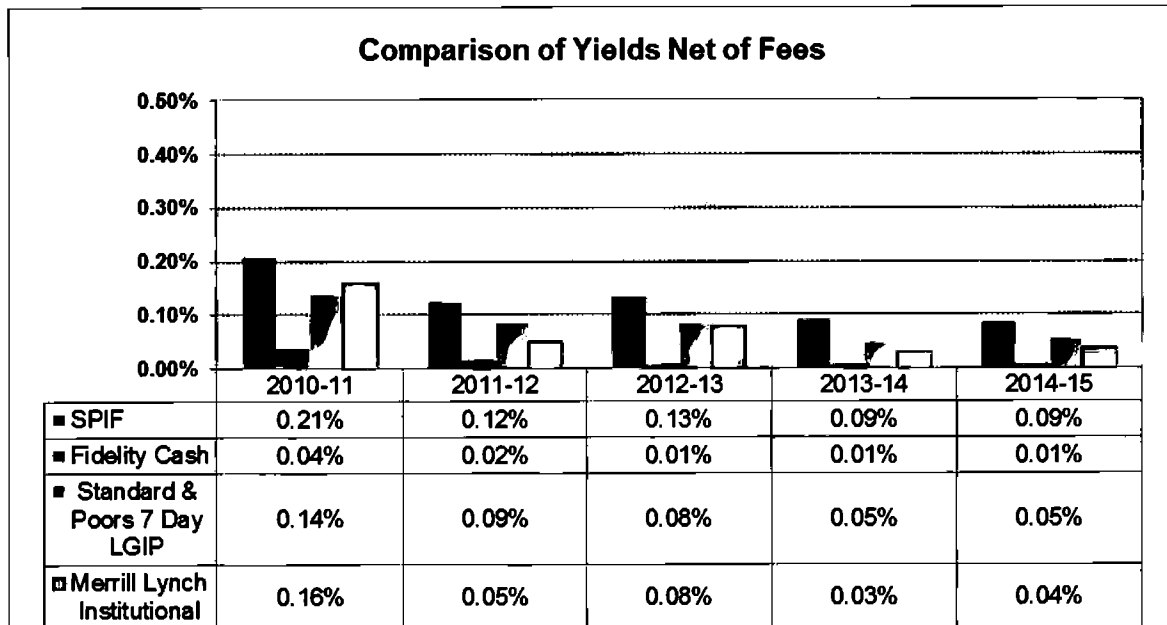
The fed funds target rate was lowered on 12/16/08 to a range of 0% to 0.25% and still remains at that level. The FOMC has given some direction regarding the timing of the next move in monetary policy, but the indicators that the Fed is watching will probably move the market very little over the next 12 months. The FOMC has stated that the target rate may begin to rise late 2015 or early 2016. 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
04/30/2014	0 to 0.25%	None	None	3.25%	Growth Risk
06/18/2014	0 to 0.25%	None	None	3.25%	Growth Risk
07/30/2014	0 to 0.25%	None	None	3.25%	Growth Risk
09/17/2014	0 to 0.25%	None	None	3.25%	Growth Risk
10/29/2014	0 to 0.25%	None	None	3.25%	Growth Risk
12/17/2014	0 to 0.25%	None	None	3.25%	Growth Risk
01/28/2015	0 to 0.25%	None	None	3.25%	Growth Risk
03/18/2015	0 to 0.25%	None	None	3.25%	Growth Risk
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
10/25/2015	0 to 0.25%	None	None	3.25%	Growth Risk

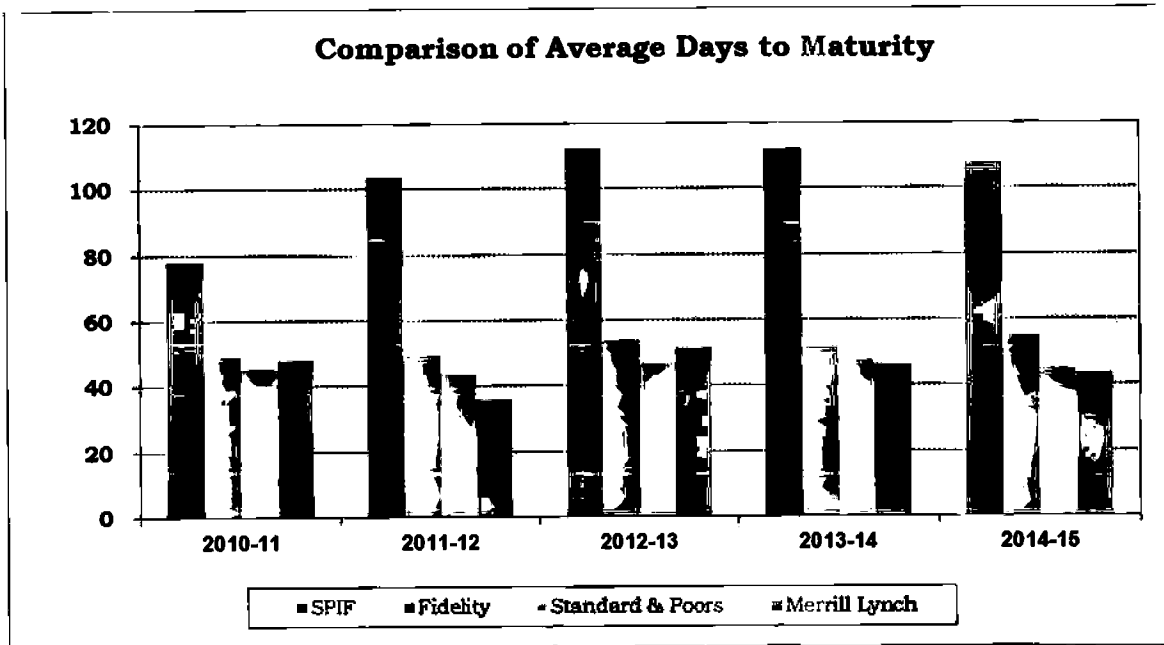
The following chart contains the average yields earned by asset type within the SPIF for the last five years and for the month of October, 2015.



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.



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

The SPIF Investment Policy will need to be modified during 2016. The SEC made substantial changes to Rule 2a-7 that were announced in July 2014, and the SPIF is considered a 2a-7 like fund in order to comply with GASB 31 rules. Funds must be in compliance with the new SEC rules no later than October 14, 2016. Because of the negative impact of some of the SEC changes, the GASB is considering changes to Statement 31 that removes the reference to SEC Rule 2a-7. An Exposure Draft has been issued and should be finalized early 2016. When GASB releases a final version, options will be presented to the Funding Board that will allow the Board to make the necessary decisions for the fund going forward.

IV. INVESTMENT PLAN

Seven years ago, the FOMC lowered the Fed Funds rate to a range of zero to 0.25%. The rate has remained unchanged since that time. Based upon Fed Funds Futures, the overnight rate appears to be increasing slightly during the next 12 months. Quantitative easing, the Federal Reserve's securities purchasing plan, has kept rates artificially low. But while that program may have ended, the Federal Reserve plans on keeping short-term rates low until signs of inflation begin to appear. This means that earnings from the SPIF will be immaterial 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. The Securities and Exchange Commission issued rules changes for money market funds that must be implemented by October, 2016. While the SEC does not regulate public funds, GASB has historically chosen to follow SEC Rule 2a-7 for public funds that report at a stable dollar. As mentioned earlier, GASB should finalize a plan in early 2016 that will create a standard for stable dollar funds separate from the SEC rules. 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 \$4.27 million for the year ended June 30, 2015. The costs of operations are funded from a 5 basis point charge for assets invested. Most money market 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
- 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, 2015 BY CATEGORY

Treasuries and Agencies

1. FHLB	\$1,507,495,000
2. FHLMC	855,545,000
3. IBRD	815,000,000
4. FFCB	695,800,000

Commercial Paper

1. BNP Paribas	\$300,000,000
2. UPS	149,000,000
3. Cargill	100,000,000
4. Nieuw Amsterdam Rec	100,000,000

Bank CD's

1. B B & T	\$400,000,000
2. Regions Bank	300,000,000
3. First TN Bank	100,000,000
4. Capstar	65,000,000

**REPORT ON THE
Intermediate Term INVESTMENT FUND
For The Fiscal Year Ended June 30, 2015**



PREPARED FOR THE
STATE FUNDING BOARD

November 13, 2015

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, 2015

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, 2015, there were no additional investments, and the participant had scheduled withdrawals of \$40 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, 2015, was 92.33% US agencies and 7.67% idle cash in the SPIF. The larger exposure to cash was in preparation for withdrawals and taking advantage of market opportunities to raise the necessary cash.

Maturity

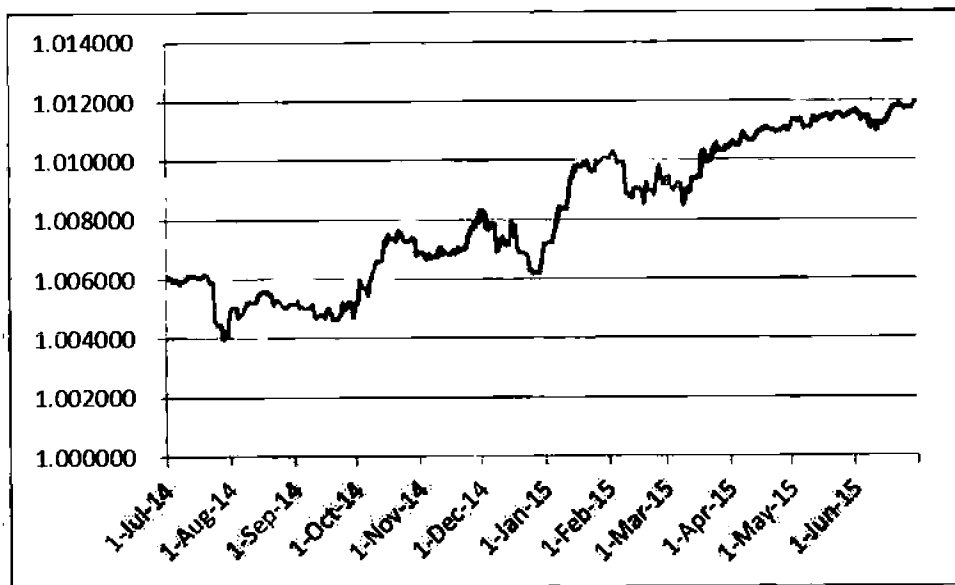
The objective of the ITIF is to take advantage of the expected additional return from investing farther out on the yield curve. The Investment Policy permits investments up to five years with an average maturity of three years. The weighted average maturity had been allowed to roll down to just over two years. However, as the market began to price in an interest rate hike, the duration was increased to take advantage of higher rates being offered. The Federal Reserve has still not raised rates, but the market movement has been positive for the Intermediate Term Investment Fund.

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, 2015, the Intermediate Term Investment Fund has had a market value increase of 1.195%. During fiscal year 2015, the fund increased in value .596% net of expenses, or nearly 60 basis points. During the same period, the SPIF returned 9 basis points, the Vanguard Short Term Federal Fund (VSGBX) had a net return of 77 basis points, and the Barclays Government Bond Fund Index had an average return of 78 basis points. The net asset value (NAV) ranged from 1.004005 on July 28, 2014, to 1.011948 on June 30, 2015. 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

The Federal Reserve cut short term interest rates to a level of zero to 25 basis points in 2008. Since that time, many investors have had to settle for very little income being generated from money market funds. 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. The Federal Reserve has indicated that the time may be near to

begin allowing short term rates to rise, and that would have an 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, 2015

DESCRIPTION	ACCRUED INCOME	MARKET VALUE	MATURITY	MKT PRICE	PAR	INC PURCHASED	RATE	CUSIP
FEDERAL FARM CR BKS	4,279.17	7,881,211.17	6/5/2017	99.708	7,900,000.00	8,064.58	0.750	3133ECQS
FEDERAL FARM CR BKS	33,250.00	15,033,850.00	8/11/2016	100.004	15,000,000.00	712.50	0.570	3133EDF31
FEDERAL HOME LOAN B/A	156,354.17	15,177,054.17	7/23/2019	100.138	15,000,000.00	-	2.375	3130A2MY
FEDERAL HOME LOAN B/A	7,292.08	6,471,417.58	11/24/2017	100.219	6,450,000.00	-	1.100	3130A3GA
FANNIE MAE	129,295.83	15,184,945.83	8/24/2018	100.371	15,000,000.00	-	1.430	3136G2AP
		59,748,478.75						
Cash		102,193,942.32						
		161,942,421.07						
SHARES		160,030,371.36						
NAV		1.011948						

**Tennessee State Veterans' Homes Board
Presentation to State Funding Board
November 13, 2015**

Financial Summary July 2015 through October 2015

Year to Date Summary of Financial Operations

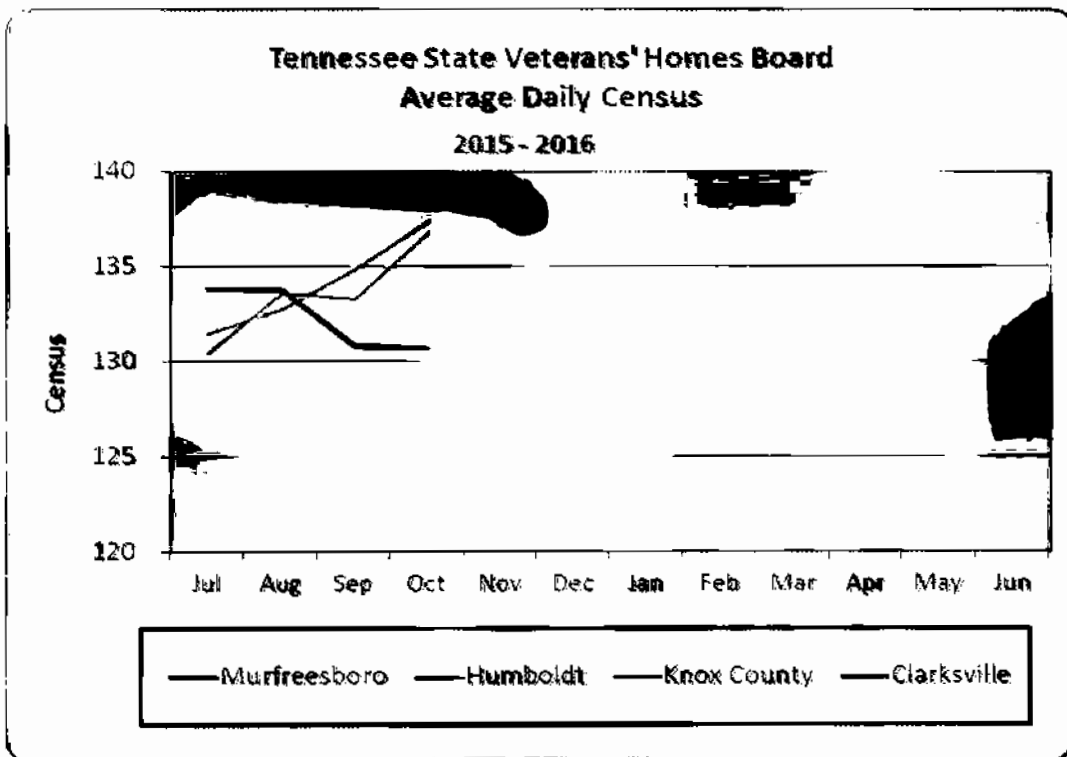
The Statement of Activities YTD net income at September 2015 for home office and facilities are shown below.

<u>Year-to-Date</u>	<u>Home Office</u>	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knox County</u>	<u>Clarksville</u>	<u>Total</u>
Actual	\$ 53,978	\$ 50,913	\$ 70,528	\$ 123,165	\$ (416,758)	\$ (118,174)
Budget	\$ (3,324)	\$ 22,048	\$ 14,767	\$ 49,554	\$ (523,478)	\$ (440,433)
Difference	\$ 57,302	\$ 28,865	\$ 55,761	\$ 73,611	\$ 106,720	\$ 322,259

Net income reported for Murfreesboro, Humboldt and Knox County is more than budget and is the result of patient mix and census. The Clarksville loss represents interest payments for debt and start-up cost.

Net profit excluding Clarksville is \$298,584 which exceeds budget of \$83,045.

The following chart shows the average daily census for the three homes. Each home has 140 beds dually certified for Medicaid and Medicare.



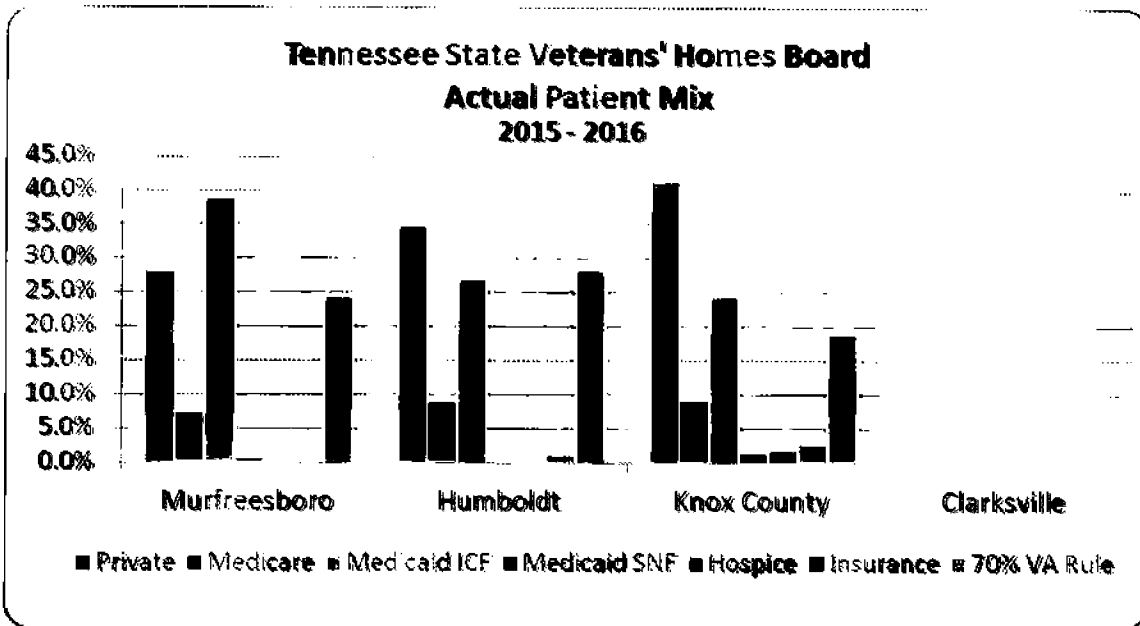
**Tennessee State Veterans' Homes Board
Presentation to State Funding Board
November 13, 2015**

For the month of October 2015, each facility is reporting the following average daily census (ADC) and occupancy information:

<u>Facility</u>	<u>ADC</u>	<u>Occupancy</u>
Murfreesboro	131	93%
Humboldt	137	98%
Knox County	137	98%

The occupancy rate at all three facilities exceeds the state occupancy rate of 77.7%.

Patient mix is a key factor and drives revenues for the homes. Patient mix year to date at October 31, 2015 is shown below.



LGIP Funds

Per State law, all funds of the Board are to be held at the Local Government Investment Pool (LGIP). As of October 31, 2015, cash balances at LGIP for the facilities and home office are as follows:

<u>LGIP Funds</u>	<u>Home Office</u>	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knox County</u>	<u>Total</u>
Revenue Fund	\$ 7,160,998				\$ 7,160,998
Repair & Replacement		752,675	758,055	755,598	2,266,327
Debt Service Fund		140,913	146,349		287,262
Operating Reserve	5,015,702				5,015,702
Technology	538,445				538,445
Special Funds	-				-
Contributions	40,904				40,904
Total	\$ 12,756,048	\$ 893,588	\$ 904,404	\$ 755,598	\$15,309,638

**Tennessee State Veterans' Homes Board
Presentation to State Funding Board
November 13, 2015**

Future Development

State Veterans' Homes are constructed with a combination of State and Federal money. The Federal portion of the cost of construction, 65%, is provided through the U.S. Department of Veterans Affairs pursuant to U.S. Code Title 38, Chapter 81, Part 59.

Currently there is one TSVH project on the VA Construction priority 1 list.

- Clarksville-Montgomery County is currently under construction at 250 Arrowood Drive in Clarksville, TN. This is a 108 bed intermediate and skilled care nursing facility, expected to open in fall 2015.
- An application for federal funding has been submitted for a 108 bed intermediate and skilled care nursing facility in Cleveland-Bradley County. This project is currently in design phase.
- Shelby County has been approved for consideration; to date no part of the state-shared portion of construction costs have been raised. Facility size is expected to be 144 beds. Site options are currently being explored.
- Sullivan County has begun the process for developing a State Veterans' Home. A steering committee has formed.

Clarksville

A fourth home is currently under construction for the Clarksville-Montgomery County area. A building site has been identified and the ground breaking was May 17, 2013. The projected completion date is winter 2015. The budget includes start-up expenses and revenue is projected based on 12 months to achieve 95% occupancy rate.

The Tennessee General Assembly has appropriated \$10.8 million (\$6.5 million in bonds and \$4.3 million cash) for the State's portion of the cost of construction. TSVHB is responsible for debt payments on \$2 million of the \$10.8 million. Interest and principal payments commenced in April 2013. In addition, Montgomery County and the city of Clarksville each appropriated \$750,000 to assist in the State's portion of the cost of a home in their community.

State Audit

Audit for Fiscal Year Ended June 30, 2014

TSVHB received one audit finding for fiscal year ended June 30, 2014. This finding pertains to internal controls in one specific area.

Management remains committed to continued improvements in financial reporting, internal controls, and fiscal responsibility. The Board's Audit Committee takes proactive measures in dealing with issues identified by management's review of internal controls as well as those identified from other sources.

**Tennessee State Veterans' Homes Board
Presentation to State Funding Board
November 13, 2015**

Performance Audit

On December 3, 2014, Performance Audit issued its report on the operational efficiency and effectiveness of the Board. Although improvement was noted the report includes findings in three areas as follows:

- Disaster plans
- Turnover
- Title VI

Procedures have been implemented to eliminate the turnover finding. Turnover data is generated by HR Directors and presented by management at TSVH Board meetings. Turnover patterns and/or clusters are identified to allow for mitigation.

The Disaster Plan has been revised into a Comprehensive Emergency Management Plan. This allows for a more robust response to disaster situations. The CEMP, which has been implemented in all three homes, has been reviewed and approved by the local emergency planning authorities in each of the homes' communities. The recommendations noted by Performance Audit were incorporated in the CEMP by June 30, 2015.

A written policy providing guidelines on the Title VI contract monitoring process was reviewed and approved by the board at the January 2015 board meeting. The policy includes procedures and a deadline for receiving Title VI self-surveys.

Management remains committed to continued improvements in financial reporting, internal controls, and fiscal responsibility. The Board's Audit Committee takes proactive measures in dealing with issues identified by management's review of internal controls as well as those identified from other sources.

Regulatory Compliance

The Knoxville and Humboldt Homes have five-star overall quality ratings by CMS which is the highest rating. Murfreesboro has four stars. The Five-Star Quality Rating System was created to help consumers, their families, and caregivers compare nursing homes more easily. This rating system is based on continued efforts as a result of the Omnibus Reconciliation Act of 1987 (OBRA '87), a nursing home reform act, and more recent quality improvement campaigns such as the Advancing Excellence in America's Nursing Homes, a coalition of consumers, health care providers, and nursing home professionals.

Nursing home ratings are taken from the following three sources of data:

Health Inspections

Staffing

Quality Measures

Antipsychotic drug use

CMS provides a star rating for each of these sources. These ratings are combined to calculate an overall rating.

**Tennessee State Veterans' Homes Board
Presentation to State Funding Board
November 13, 2015**

The Tennessee Department of Health has conducted its annual survey of each facility.

The Knoxville survey was completed in January 2015. This survey had zero clinical deficiencies.

The TSVH home in Humboldt had their survey in October 2014. This survey had zero clinical deficiencies.

The Murfreesboro survey was completed in August 2015, with six minor clinical deficiencies which did not compromise patient care. They included:

1. Eye ointment not applied to resident.
2. Incorrect process used while administering medication via nasogastric tube
3. Omission of constipation medication during medicine delivery. Incorrect volume of water used while administering medication.
4. Delay in initiation of medication due to unavailability of eye drops
5. Incorrect recording of refrigerator temperature
6. Improper disposal of finger stick lancet

The average number of health deficiencies cited in Tennessee's long term care facilities standard survey process is 5.3 and nationally at 6.8.

The Department of Veterans Affairs conducted annual operational and clinical reviews in March 2015, January 2015 and June 2015 of each of the three TSVH homes. Murfreesboro and Humboldt received a perfect score. Knoxville had three standards at issue that were remedied immediately. They included:

1. Resident Assessment and Care plan
2. Review and Analysis of Sentinel Events
3. Accidents

The Department of Veterans Affairs subsequently found the Knoxville home in compliance with all VA regulations and standards after their review of information submitted by the Knoxville home.

Executive Committee

The clinical and financial operation of the Tennessee State Veterans' Homes is closely monitored by the TSVHB Executive Committee. Current financial information shows that implemented cost control efforts, efficiency progress, as well as revenue and census improvements have had their expected and desired results.

The Board, management and staff remain committed to continued improvements in the financial and clinical operations of the Tennessee State Veterans' Homes.