TENNESSEE STATE FUNDING BOARD
APRIL 11, 2019
AGENDA

1. Call meeting to order

2. Consideration for approval of State Funding Board minutes from the March 8, 2019, meeting

3. Presentation of the staff analysis of "An Economic Report to the Governor of the State of Tennessee": (Link to Report: http://cber.haslam.utk.edu/erg/erg2019.pdf)

    - List Identifying State and Non-Tax Revenue Sources from the Attorney General pursuant to Tennessee Code Annotated §9-4-5202

4. Discussion and consideration of new legislation (PA2019 CH6) impacting Tennessee's local governments as required by the SEC amended Rule 15c2-12 and requesting public comment for guidelines and reporting format

5. Adjourn

TENNESSEE STATE FUNDING BOARD
March 8, 2019

The Tennessee State Funding Board (the "Board") met on Friday, March 8, 2019, at 1:15 p.m., in the Cordell Hull Building, 1st Floor, House Hearing Room V, Nashville, Tennessee. The Honorable Justin Wilson, Comptroller, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
Commissioner Stuart McWhorter, Department of Finance and Administration

The following members were absent:

The Honorable Bill Lee, Governor
The Honorable David Lillard, Treasurer

Seeing a physical quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the December 17, 2018 meeting. Mr. Hargett made a motion to approve the minutes. Mr. Wilson seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Mr. Bob Rolfe, Commissioner of Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting on December 17, 2018, the FastTrack balance was $271,677,286.43. Since that time, $1,909,122.93 in new funds had been appropriated; $1,229,364.44 in funds were deobligated and returned to the FastTrack program; $56,417,108.00 in new grants had been approved and $409,807.25 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of $217,988,858.55 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of $154,000,987.67, resulting in an uncommitted FastTrack balance of $63,987,870.88. Mr. VanderMeer reported that the projects to be considered at this meeting totaled $20,748,086.00, and if these projects were approved, the uncommitted balance would be $43,239,784.88 and the total commitments would be $174,749,073.67, which represented 80.2% of the FastTrack balance.

Mr. Rolfe then presented the following FastTrack projects:

- **JNJ Express, Inc. – Memphis (Shelby County)**
  FastTrack Economic Development Grant $ 1,220,000.00

- **FedEx Logistics, Inc. – Memphis (Shelby County)**
  FastTrack Economic Development Grant $10,000,000.00

- **Portobello America, Inc. – Baxter (Putnam County)**
  FastTrack Economic Development Grant $ 3,000,000.00

- **Van Hool TN Manufacturing, LLC – Morristown (Hamblen County)**
  FastTrack Economic Development Grant $ 4,750,000.00
  FastTrack Infrastructure Development Grant $ 250,000.00
  FastTrack Job Training Assistance $ 1,500,000.00

- **Gränges Americas Inc. – Huntingdon (Carroll County)**
  FastTrack Infrastructure Development Grant $ 28,086.00

Mr. Rolfe further explained that the Board had previously approved an infrastructure grant of $395,850.00 for the Gränges Americas Inc. project for necessary sewer improvements at the Huntingdon Industrial Park on May 16, 2018. Mr. Rolfe explained that the $28,086.00 requested was to finish those improvements, which would benefit all users of the industrial park.

The Board received in their packets signed letters, FastTrack checklists, and incentive acceptance forms signed by Mr. Rolfe. Mr. Wilson inquired if the information provided in the ECD packets was true and correct and Mr. Rolfe responded affirmatively. Mr. Wilson also inquired if the companies that had signed the incentive acceptance forms fully understood the agreements and Mr. Rolfe responded affirmatively.

Mr. Hargett inquired as to the median hourly wages of the counties of the projects presented. Ms. Jamie Stitt, Assistant Commissioner of Business and Workforce Development, ECD, responded $16.35 for Shelby County, $14.17 for Putnam County, and $14.09 for Hamblen County. Ms. Stitt further stated that 98% of projects approved in 2019, and over 80% approved in 2018, exceeded the median wage of the county that the project was approved in.

Mr. McWhorter inquired about how the amount of project funding is determined. Mr. Rolfe responded that projects were prioritized based on the number of net new jobs, the amount of private capital investment, the average hourly wage of the new jobs created, and the tier ranking of the county where the project was located. Mr. Rolfe further stated that ECD maintains a database that allows them to compare a new grant to historical grants for the same area. Mr. Wilson then inquired about the prioritization of public infrastructure grants. Mr. Rolfe responded that the infrastructure grants were for the infrastructure needs surrounding a project site and are granted through separate requests, on an as needed basis.

Mr. Hargett made a motion to approve the FastTrack projects that were presented. Mr. Wilson seconded the motion, and it was unanimously approved.

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

Approved on this _________ day of ____________________ 2019.

Respectfully submitted,

Sandra Thompson
Assistant Secretary

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Memorandum

To: Honorable Bill Lee, Governor

Honorable Justin P. Wilson, Comptroller of the Treasury

Honorable Tre Hargett, Secretary of State

Honorable David H. Lillard, Jr., Treasurer

Honorable Stuart McWhorter, Commissioner of Finance and Administration

From: William Wood, Budget Analyst, Comptroller of the Treasury

Date: April 11, 2019

Re: Economic Report to the Governor

This memo considers the reasonableness of the economic projections published in the annual *Economic Report to the Governor (http://cber.haslam.utk.edu/erg/erg2019.pdf)* from the Boyd Center for Business and Economic Research (CBER) at the University of Tennessee. In addition, the memo examines consumer spending, the labor market and unemployment rates, and considers the possible economic outcomes of emerging federal policies.

In short, Comptroller's staff analysis finds:

- **CBER's projections for Tennessee nominal personal income do not appear to be unreasonable.** The CBER report predicts that Tennessee nominal personal income will grow by 4.26 percent and 4.48 percent in calendar years 2019 and 2020, respectively. Although few agencies track Tennessee personal income statistics, the state's personal income growth has historically tracked closely alongside growth in the U.S. Gross Domestic Product (GDP). CBER's projections for U.S. GDP fall within the range of other figures quoted by various other forecasting sources, leading staff to conclude the CBER's estimate for Tennessee personal income is similarly reasonable.

- **Job growth in Tennessee has been healthy and the state unemployment rate remains incredibly low.** Nonfarm employment is projected to grow by 1.8 percent or 52,000 new jobs in 2018. This would be slightly faster than the 1.6 percent growth rate

Statutory Authority

Tennessee Code Annotated (TCA) § 9-4-5202 requires the State Funding Board (the Board) to secure estimates of Tennessee's economic growth from the Tennessee econometric model at least once a year. These estimates are published annually in the *Economic Report to the Governor* by the University of Tennessee's Boyd Center for Business and Economic Research (CBER). The report includes data on such indicators as nominal personal income, employment, inflation, consumer spending, and the housing market for Tennessee and the United States as a whole.

The statute also requires the Board to comment on the "reasonableness" of CBER's projections, and provide different estimates, if necessary. As specified in TCA § 9-4-5201, the rate of Tennessee's economic growth is based on the projected changes in Tennessee nominal personal income.

The Comptroller's staff assists the Board by evaluating information on current economic conditions and trends provided by commonly referenced sources in economic forecasting.

forecasted for the U.S. The 2019 unemployment rate is forecast to be 3.6 percent and 3.4 percent, for Tennessee and the U.S., respectively.

CBER's projections fall within the range of other forecasts

The CBER economic report predicts that Tennessee nominal personal income will grow by 4.26 percent and 4.48 percent in calendar years 2019 and 2020, respectively (Exhibit 1).[1]

Exhibit 1: CBER's Estimated Tennessee Personal Income Growth

Forecast Year	Calendar Year	Fiscal Year
2018	4.25%	—
2019	4.26%	4.30%
2020	4.48%	4.40%

[1]Matthew N. Murray et al., *An Economic Report to the Governor of the State of Tennessee: The State's Economic Outlook January 2019*, Boyd Center for Business and Economic Research, University of Tennessee, January 2019, pp. 33 , http://cber.haslam.utk.edu.

AT A GLANCE
Tennessee's Economic Outlook

2019

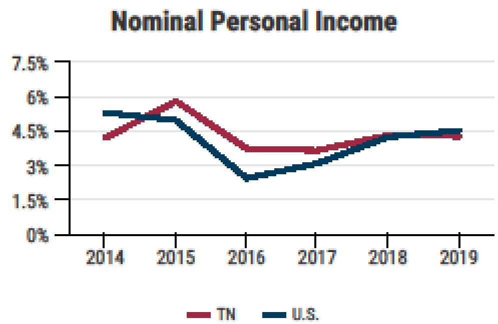
projections from the Boyd Center for Business and Economic Research

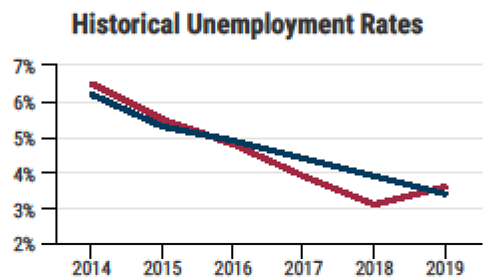
▲ **4.3%**
nominal personal income

U.S. ▲ 4.5%

▲ **3.6%**
unemployment rate

U.S.: 3.4%





▲ **2.6%**
real GDP

U.S.: ▲ 2.7%

▲ **2.5%**
Consumer Price Index

1.4%
new nonfarm jobs created

U.S. ▲ 1.5%

$50,428
per capita income

Quick Facts

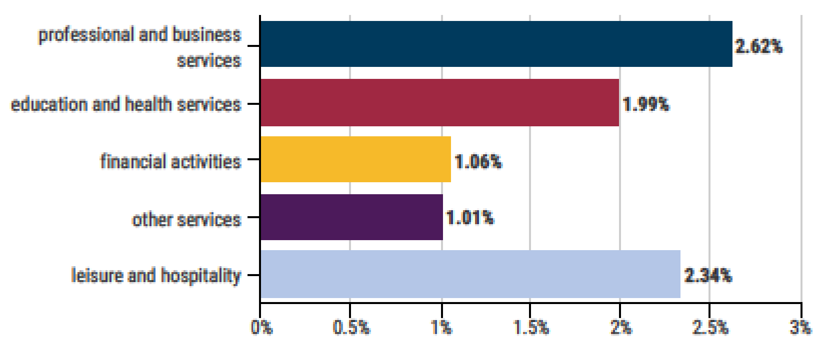
Tennessee's sales tax revenue was up **5.7 percent** for the fiscal year to date.

Tennessee recorded **9,837 new entity filings (i.e. initial filings) in the fourth quarter of 2018**, representing a robust 10.3 percent increase over the same quarter last year.

Four consecutive quarters of year-over-year growth in excess of 10 percent and 29 consecutive quarters of positive year-over-year growth.

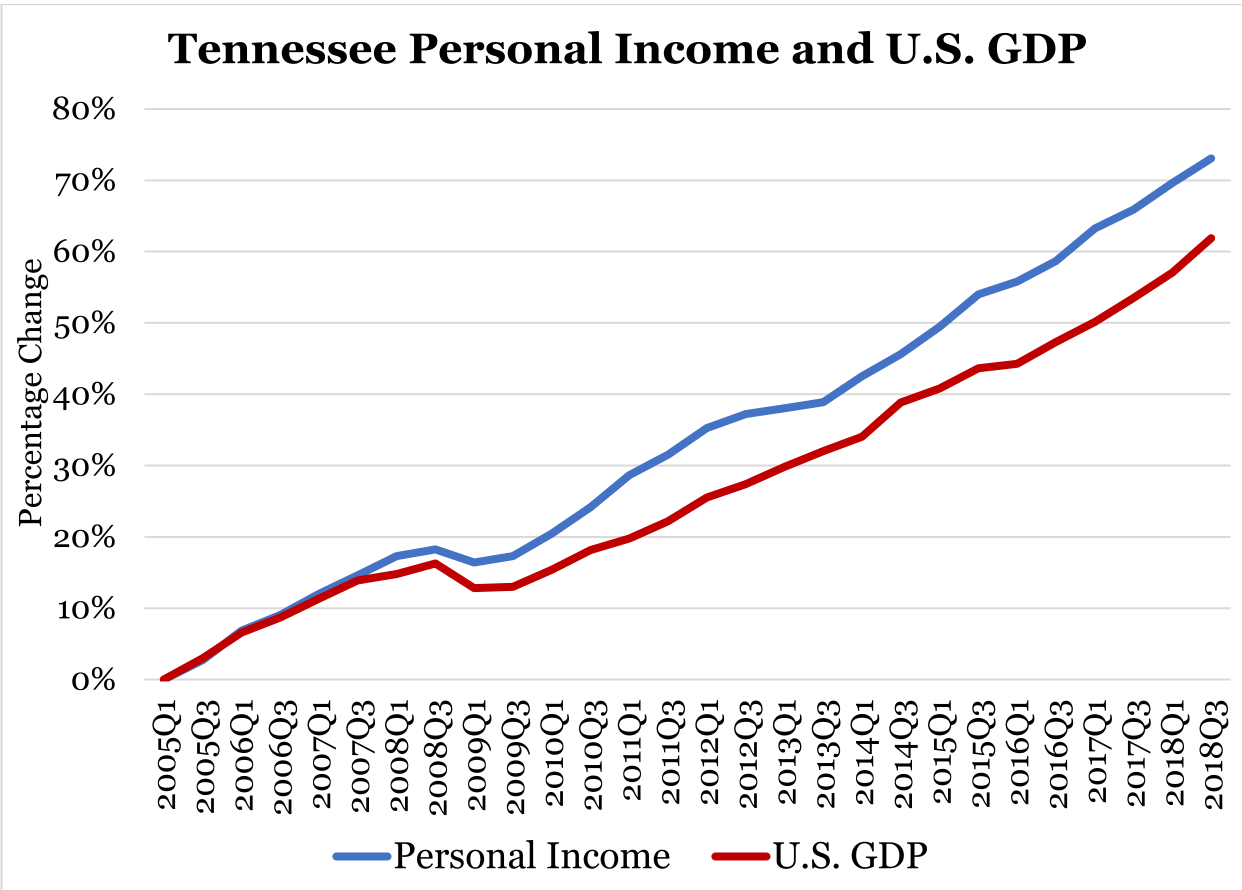
Tennessee's Fastest Growing Industries

Nonfarm employment is projected to grow by 1.8% or 52,000 jobs in 2018. This is slightly faster than the 1.6% forecast for the US.



Few agencies estimate growth in Tennessee personal income, making it difficult to directly compare CBER's projections with other sources. Tennessee personal income closely tracks growth in the state's Gross Domestic Product (GDP), however, and the state GDP figure typically mirrors the national GDP. Consequently, U.S. GDP may be used as a proxy for Tennessee GDP, which, in turn, may stand in for Tennessee personal income – in fact, the two figures often track closely (Exhibit 2). Thus, in the end, staff may compare the many estimates of U.S. GDP growth to CBER's projections and use the result to judge the reasonableness of CBER's personal income predictions.

Exhibit 2: Relative Growth of Tennessee Personal Income and U.S. GDP



Source: U.S. Bureau of Economic Analysis, Tennessee Personal Income by Major Component, Gross Domestic Product, January 11, 2019, www.bea.gov.

CBER projects that U.S. GDP will grow 2.7 percent in calendar year 2019. This figure falls within a range of government and non-government forecasts: Fannie Mae and the Federal Reserve bank predict 2.3 percent growth over this period, while Deutsche Bank and the Conference Board forecast a 2.7 percent increase (Exhibit 3). Because CBER's estimates for U.S. GDP fall within the range of predictions from other reputable sources, Comptroller's staff finds that CBER's projections for Tennessee personal income growth are not unreasonable.

Exhibit 3: Government and Non-Government GDP Forecasts

Forecaster	CY 2019	CY 2020	Date
World Bank	2.5	1.7	January 2019
Fannie Mae	2.3	1.6	December 2018
Freddie Mac	2.4	1.8	November 2018
UBS	2.5	2.0	January 2019
Deutsche Bank	2.7	2.1	December 2018
Federal Reserve Bank	2.3	2.0	December 2018
Conference Board	2.7	2.2	January 2019
Wells Fargo	2.6	2.2	January 2019
High	2.7	2.2	
Median	2.5	2.0	
Low	2.3	1.6	
CBER	**2.7**	**2.1**	**January 2019**

Source: World Bank, *Global Economic Prospects, January 2019*, p. 4, https://www.worldbank.org; Fannie Mae, "Economic Forecast: December 2018," January 8, 2019, p. 1, http://www.fanniemae.com; Freddie Mac, "Expect Modest Housing Market Growth in 2019," November 2018, p. 7, http://www.freddiemac.com; Mark Haefele, "UBS House View," UBS, January 2019, p. 12, https://www.ubs.com; Barbara Böttcher et al., *Outlook 2019: Slowing Growth, but no Hard Landing*, Deutsche Bank, December 14, 2018, p. 2, https://www.dbresearch.com; Federal Reserve Bank, "Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy," December 19, 2018, p. 1, https://www.federalreserve.gov; Conference Board, "The Conference Board Economic Forecast for the U.S. Economy," January 9, 2019, p. 2, http://www.conference-board.org; Wells Fargo, "Wells Fargo Economics Monthly Macro Manual," January 8, 2019, p. 11, https://www.wellsfargo.com; Matthew N. Murray et al., *An Economic Report to the Governor of the State of Tennessee: The State's Economic Outlook January 2019*, Boyd Center for Business and Economic Research, University of Tennessee, January 2019, p. 33, http://cber.haslam.utk.edu.

U.S. Economy

U.S. GDP is one of the broadest measures of economic activity for the national economy and is composed of personal consumption expenditures, investment, government purchases, and the balance of trade. Personal consumption expenditures constitute the largest component of U.S. GDP and will account for 69.4 percent of income in 2018.[2] The U.S. economy continued its strong growth in 2018, with inflation-adjusted annual growth of approximately 3.0 percent. This is a substantial increase on the 2.2 percent and 1.6 percent growth recorded in 2017 and 2016 respectively.

[2] Matthew N. Murray et al., *An Economic Report to the Governor of the State of Tennessee: The State's Economic Outlook January 2019*, Boyd Center for Business and Economic Research, University of Tennessee, January 2019, pp. 3, http://cber.haslam.utk.edu.

Wage Growth

The U.S. Labor Department reported in October 2018, that wages were up 3.1 percent, the biggest increase in 10 years.[3] Wage increases have been the missing link in the economy since the recovery began in mid-2008. Average hourly earnings have been rising steadily but have stayed below the 3 percent level as slack has remained in the labor market. Wage growth can lead to further improvement in economic indicators. Consumer spending, the largest component of GDP, often increases with wage growth. In addition, as consumer spending increases, businesses increase hiring. The Federal Reserve minutes from January 29-30, 2019 have noted the correlation.

> Key factors that influence consumer spending including ongoing gains in real disposable personal income and still elevated measures of household's net worth continued to be supportive of solid real Personal Consumption Expenditures (PCE) growth in the near term.[4]

Consumer Confidence

Consumer confidence is an economic indicator that measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. In theory, the more optimistic consumers feel, the more they may be inclined to spend. An upturn in the index can be an indicator of more jobs, higher wages, an increased demand for capital; and possibly higher inflation. A downturn in the index can be an indication of the opposite. Consumer confidence rebounded in February, following three months of consecutive declines. Expectations, which had been negatively impacted in recent months by financial market volatility and the government shutdown, recovered in February. Looking ahead, consumers expect the economy to continue expanding.[5]

Labor Market

Consistent with the increase in GDP, labor markets continue to improve. The U.S. continues to post strong results, with an expected 2018 unemployment rate of 3.9 percent versus last year's 4.4 percent. With a forecasted 2019 unemployment rate of 3.4 percent, the economy continues to operate on the frontier of full employment.[6] The U.S. economy now has 162 million people in its labor force. At 72.2 percent, the prime age (under 65) participation rate is at its highest level since 2009.

The state unemployment rate averaged an incredibly low 3.7 percent in 2017 and is on pace to fall to 3.5 percent in 2018. The low unemployment rate, in combination with strong jobs

---

[3] Jeff Cox., *Wages and Salaries Jump by 3.1%, Highest Level in Decade,* CNBC, October 31, 2018. https://www.cnbc.com

[4] Federal Open Market Committee, *Minutes from Meetings January 29-30, 2018, p. 13.* https://www.federalreserve.gov.

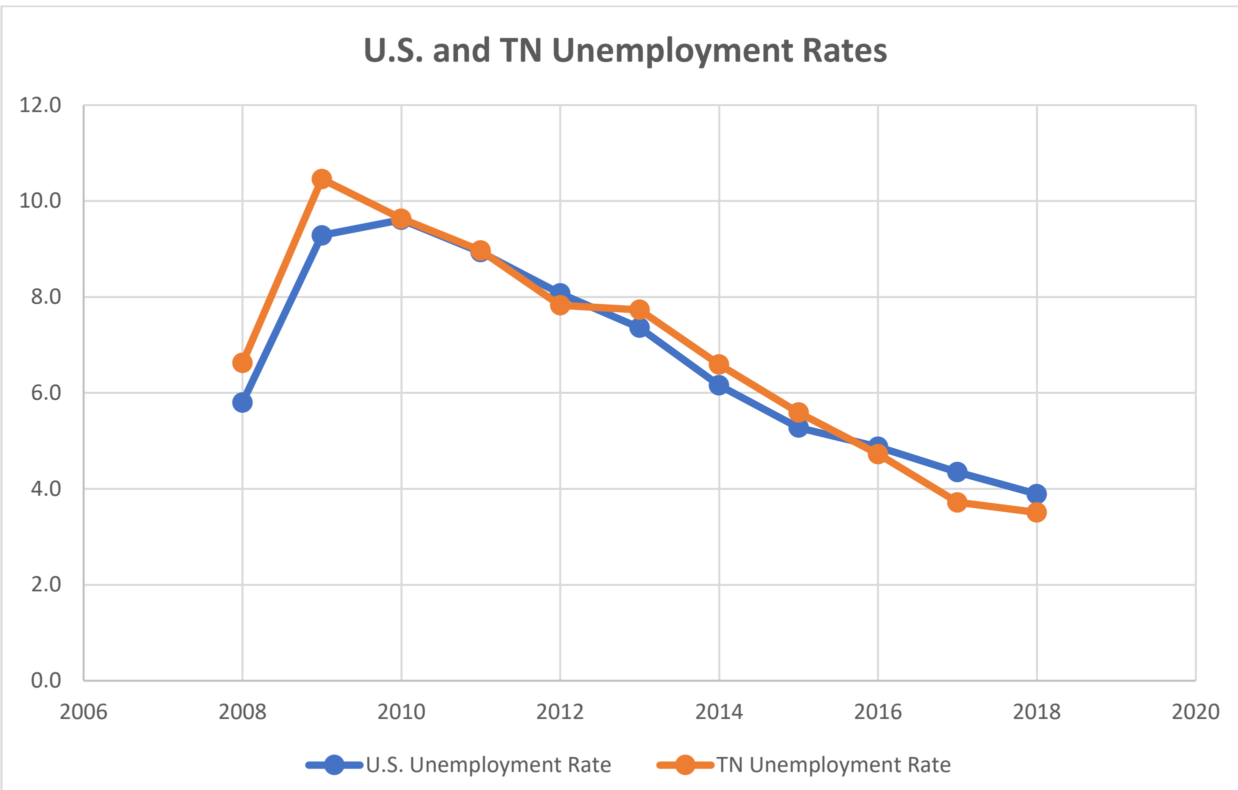
[5] Lynn Franco., *The Conference Board Consumer Confidence Index Rebounded in February,* The Conference Board, February 2019, https://www.conference-board.org

[6] Matthew N. Murray et al., *An Economic Report to the Governor of the State of Tennessee: The State's Economic Outlook January 2019,* Boyd Center for Business and Economic Research, University of Tennessee, January 2019, pp 10. http://cber.haslam.utk.edu.

growth, points to an economy that is cruising along at or near "full employment" (the idea that everyone who is willing and able to work is employed).[7] An unemployment rate this low is positive for consumer spending, as workers who have found a job spend money and further boost the economy. Participants of the Open Market Committee noted the strong labor market in the minutes from their January meeting.

> In their discussion of labor markets, participants agreed that conditions had continued to strengthen. Estimates of job gains in the December employment report had been strong, the unemployment rate had remained low, and the labor force participation rate had moved up. Several participants noted solid rates of hiring or other indicators of tight labor market conditions in their districts. Some participants commented on recent indicators at the national or district levels as suggesting a pickup in wage growth.

A drawback is that if the unemployment rate drops too low it could cause an unwanted rise in inflation, that erodes the purchasing power of the dollar.



Source: Federal Reserve Bank of St. Louis, Civilian Unemployment Rate, March 4th, 2019, https://fred.stlouisfed.org.

Inflation and Interest Rates

[7] Ibid

The monetary goals of the Federal Reserve are to foster economic conditions that achieve both stable prices and maximum sustainable employment. Price stability preserves the integrity and purchasing power of the nation's money. When prices are stable, people can hold money for transactions and other purposes without having to worry that inflation will eat away at the real value of their money. Equally important, stable prices allow people to rely on the dollar as a measure of value when making long-term contracts, engaging in long-term planning, or borrowing or lending for long periods.

The preferred measure by the Federal Reserve of core inflation in the U.S. is the change in the core personal consumption expenditures price index (PCE). The Federal Open Market Committee's (FOMC) stated objective for core PCE is 2 percent. Core PCE price inflation, which excludes changes in consumer food and energy prices, was 1.9 percent over the 12 months ending in November.[8]

> Participants observed that both overall inflation and inflation for items other than food and energy remained near 2 percent on a 12-month basis. Participants continued to view inflation near the Committee's symmetric 2 percent objective as the most likely outcome. Some participants noted that some factors, such as the decline in oil prices, slower growth and softer inflation abroad, or appreciation of the dollar last year, had held down some recent inflation readings and may continue to do so this year. In addition, many participants commented that upward pressures on inflation appeared to be more muted than they appeared to be last year despite strengthening labor market conditions and rising input costs for some industries.

The Fed began to normalize interest rates in 2017 with three rate hikes. The normalization process continued in 2018 by increasing rates four times (100 basis points) to 2.5 percent. There's an old saying that when the Federal Reserve tightens policy, something breaks. As such, there has been significant debate on the necessity of the recent rate increases.

James Bullard, President of the St. Louis Federal Reserve Bank, said "after four rate hikes last year, the Fed would be bordering on going too far and possibly tipping the economy into recession if rates go higher and that he would be willing to cut interest rates if needed." Chairman Powell also sought to reassure financial markets by saying policy makers will be "patient" before making any further increases. The speed of rate increases was among the top reasons investors were alarmed and contributed to the downturn in U.S. and global stock markets late last year.

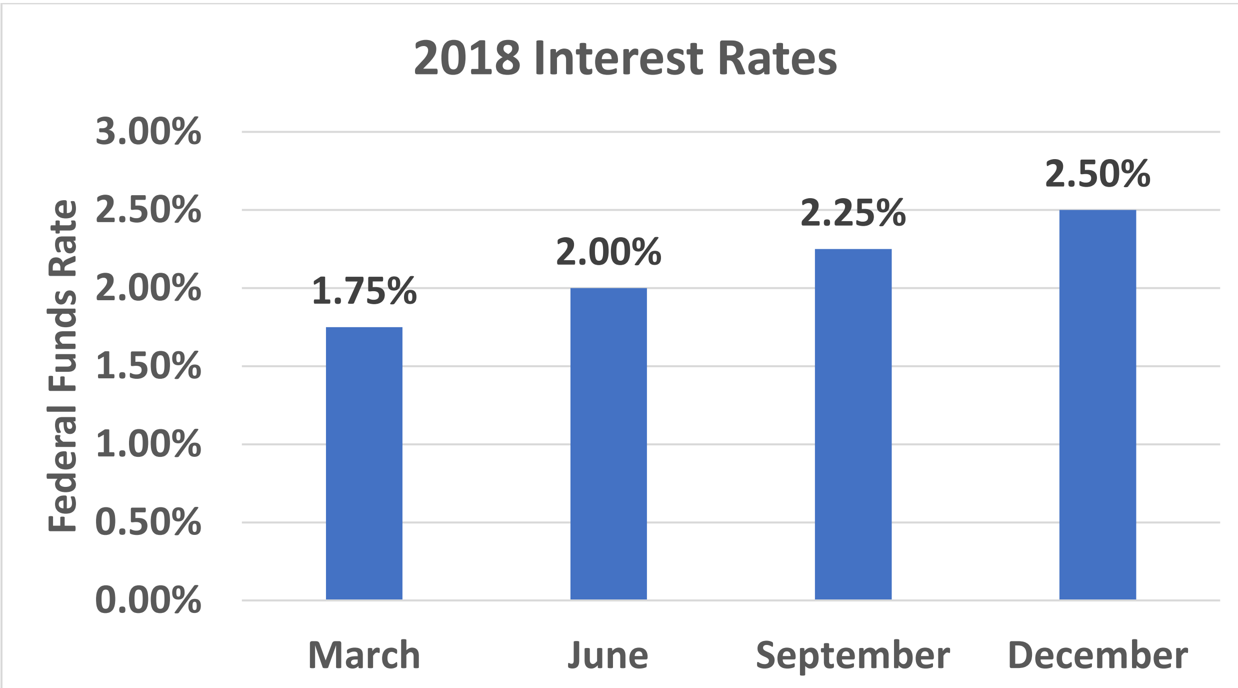
In response to the financial crisis, the Fed drastically increased its balance sheet to approximately $4.2 trillion in holdings of Treasury securities, agency debt, and mortgage-backed securities. In June 2017, the Fed announced a plan to begin reducing its balance sheet. The plan began in October 2017 with a total balance sheet reduction of $10 billion per month. This has gradually increased to the current rate of $50 billion per month. Acting to reduce the balance sheet affects interest rates as well. Assuming that the balance sheet reduction is on autopilot as outlined in the June 2017 plan, the associated reduction in reserves is a built-in factor that puts upward pressure on short-term interest rates.[9]

---

[8] Federal Open Market Committee, *Minutes from Meetings January 29-30, 2018, pp. 13-14.* https://www.federalreserve.gov.

[9] Falk Bräuning, *The Liquidity Effect of the Federal Reserve's Balance Sheet Reduction on Short-Term Interest Rates.* Federal Reserve Bank of Boston, October 2017 p.17.

The willingness of the FOMC to practice patience and, if needed, slow the reduction of the Fed's balance sheet was widely applauded by the financial markets.



Source: Board of Governors of the Federal Reserve System, https://federalreserve.gov.

Tariffs

Tariffs are a tax on imports. This tax is collected as products enter the country by customs officers. Introducing tariffs raises prices for consumers and increases sales for domestic producers, while reducing prices for sellers.

Tariffs introduce two sources of inefficiencies into markets. First tariffs raise prices, so some consumers that would have purchased at the untaxed price will not buy the product. Second, tariffs keep inefficient businesses operating at higher levels.[10]

President Trump has used China's theft of intellectual property (IP) to justify the imposition of tariffs. Allegations include counterfeiting famous brands, stealing trade secrets, and pressuring companies to share technology with local companies to gain access to China's market. IP theft hurts non-Chinese companies in three major ways. First, possible sales are lost to counterfeit goods. Second, sales prices need to be lowered to compete in a country that supports domestic

[10] Matthew N. Murray et al., *An Economic Report to the Governor of the State of Tennessee: The State's Economic Outlook January 2019,* Boyd Center for Business and Economic Research, University of Tennessee, January 2019, pp 98. http://cber.haslam.utk.edu.

industry. Third, billions of dollars are spent to address possible infringements.[11] To understand why this is so important, we need to understand where the value of companies is located. In 1975, physical assets (plant, property, and equipment) made up more that 80 percent of the market value of the S&P 500. Today, intangible assets make up over 80 percent of the S&P 500's market value.[12] So just how much damage is being done? The United States Trade Representative led a seven month investigation and found that Chinese theft of IP currently costs between $225 billion and $600 billion annually.[13]

China has responded with retaliatory tariffs on U.S. products generally and Tennessee products specifically. Among Tennessee's largest exports, the highly visible targets are Soybeans, pork, automotive, and whiskey. Around 1.6 percent of Tennesseans work in an industry facing Chinese tariffs. The exposure to these tariffs varies across the state from nearly a third of the workforce in Moore County, home of Jack Daniels, down to 0.1 percent in Cheatham County.[14]

The retaliatory tariffs will hurt the Tennessee economy, but there is an argument for engaging with China on trade. It has been 17 years since China joined the World Trade Organization. Since that time, it has failed to abide by many of the critical promises and commitments it has made. Enforcement of these promises and commitments is critical to ensuring that there is support for an open trading system that works for all nations who live by the rules. Intellectual property is the fundamental building block of both economic and military strength and should be respected.

Conclusion

The current economic expansion will be the longest in the post-World-War-II era by the end of the current fiscal year. While expansions don't die of old age, they do, at some point, come to an end. This reality requires Tennessee to continue its conservative fiscal approach of very low debt levels, excellent pension funding, and low taxes. While no recession has been forecasted, Tennessee has shown that it is prepared to manage economic headwinds by preparing to make the largest ever deposit in the Rainy Day Fund.

In consideration of the information provided here, CBER's projections for Tennessee nominal personal income growth of 4.26 percent and 4.48 percent for calendar years 2019 and 2020, respectively do not appear to be unreasonable.

---

[11] Grant Clark, *What is Intellectual Property, and Does China Steal It?,* Bloomberg, January 21, 2019

[12] Barry Libert et al, *Why Leaders are Still so Hesitant to Invest in New Business Models,* Harvard Business Review, December 21, 2016

[13] Sherisse Pham, *How Much has the U.S. Lost from China's IP Theft?,* CNN Business, March 23, 2018.

[14] Matthew N. Murray et al., *An Economic Report to the Governor of the State of Tennessee: The State's Economic Outlook January 2019,* Boyd Center for Business and Economic Research, University of Tennessee, January 2019, pp 101. http://cber.haslam.utk.edu.

STATE OF TENNESSEE

Office of the Attorney General

HERBERT H. SLATERY III
ATTORNEY GENERAL AND REPORTER

P.O. BOX 20207, NASHVILLE, TN 37202
TELEPHONE (615)741-3491
FACSIMILE (615)741-2009

April 11, 2019

State Funding Board
c/o Sandra Thompson
Assistant Secretary
Office of State and Local Finance
Tennessee Comptroller of the Treasury
Cordell Hull Building
425 Fifth Avenue North, 4th Floor
Nashville, TN 37243-3400

RE: List Identifying State Tax and Non-Tax Revenue Sources

Gentlemen:

The attached list identifying State tax and non-tax revenue sources existing as of April 11, 2019, is approved pursuant to the provisions of Tenn. Code Ann. § 9-4-5202.

Sincerely,

Herbert H. Slatery III

HERBERT H. SLATERY III
Attorney General and Reporter

Encl.

April 11, 2019

The list below identifies tax and non-tax revenue sources existing as of April 11, 2019, and is approved by the Attorney General and Reporter pursuant to the provisions of Tenn. Code Ann. § 9-4-5202:

Tax Revenue Sources

1. Sales and Use Tax
2. Gasoline Tax
3. Diesel Tax
4. Special Privilege Tax on Petroleum Products
5. Export Tax on Petroleum Products
6. Environmental Assurance Fee
7. Highway User Fuel Tax
8. Alternative Fuels Tax (Liquefied Gas Tax & Compressed Natural Gas Tax)
9. Income Tax
10. Recordation Tax
11. Privilege Taxes
12. Litigation Tax
13. Gross Receipts Taxes
14. Beer Taxes
15. Alcoholic Beverage Taxes
16. Franchise Tax
17. Excise Tax
18. Tobacco Tax
19. Motor Vehicle Title and Registration Fees
20. Mixed Drink Tax
21. Business Tax
22. Occupational Privilege Tax
23. Severance Taxes
24. Insurance Premiums Tax
25. Coin Operated Amusement Machine Tax
26. Tire Predisposal Fee
27. Used Oil Tax
28. Car Rental Surcharge
29. Bail Bond Tax
30. Vending Machine Tax
31. Unauthorized Substances Tax
32. Insurance Verification Fee
33. Fantasy Sports Tax
34. Nursing Home Tax
35. Hospital Coverage Assessment
36. Ambulance Service Provider Assessment

Mixed Fee and Tax Revenue Sources

37. Regulatory Fees and Tax Collections from:
a. Department of Commerce and Insurance
b. E-911 Emergency Communications
c. Department of Financial Institutions
d. Wildlife Resources Agency
e. Department of Health
f. Department of Agriculture
g. Regulatory Board Fees
h. Tennessee Public Utility Commission
i. Secretary of State
j. Department of Safety
k. Department of Revenue
l. Department of Environment and Conservation
m. Other State Departments, Agencies and Boards

Non-Tax Revenue Sources

38. Court Fines & Penalties Reported to:
a. Department of Commerce and Insurance
b. Department of Financial Institutions
c. Department of Agriculture
d. Wildlife Resources Agency
e. Department of Health
f. Tennessee Public Utility Commission
g. Department of Safety
h. Department of Education
i. Department of Environment and Conservation
j. Other State Departments, Agencies and Boards
39. Treasury Earnings
40. Departmental Revenues for Current Services
41. Federal Funds
42. Proceeds of State Bonds and Notes
43. Gifts and Donations
44. Payments in Lieu of Taxes
45. Tobacco Litigation Settlement
46. Lottery Revenues

Approved:

Herbert H. Slatery III

HERBERT H. SLATERY III
Attorney General and Reporter
State of Tennessee

HASLAM
COLLEGE OF BUSINESS
THE UNIVERSITY OF TENNESSEE, KNOXVILLE

March 5, 2019

Mr. Justin P. Wilson
Comptroller of the Treasury
State Funding Board
State Capitol
Nashville, Tennessee 37243

Dear Mr. Wilson:

Sections 9-6-201 and 202 of the ***Tennessee Code Annotated*** state that the Funding Board may secure from the Tennessee Econometric Model the estimated rate of growth of the state's economy as measured by the forecasted change in Tennessee personal income. Personal income is defined by the United States Department of Commerce. Major assumptions and the methodology used in arriving at the estimates are to be provided as well. This background information to our forecast is included in the ***Tennessee Economic Report to the Governor, 2019***.

We report the following to you:

Calendar Year	Personal Income (mil $)	Growth (%)	Index (1999 = 100.00)	Calendar Year	Personal Income (mil $)	Growth (%)	Index (1999 = 100.00)	Calendar Year	Personal Income (mil $)	Growth (%)	Index (1999 = 100.00)
1999	147,004	3.98	100.00	**2008**	218,783	3.65	148.83	**2017**	305,691	4.65	207.95
2000	155,574	5.83	105.83	**2009**	217,319	-0.67	147.83	**2018**	318,668	4.25	216.78
2001	159,460	2.50	108.47	**2010**	227,763	4.81	154.94	**2019**	332,239	4.26	226.01
2002	164,013	2.86	111.57	**2011**	241,769	6.15	164.46	**2020**	347,110	4.48	236.12
2003	170,680	4.07	116.11	**2012**	254,406	5.23	173.06	**2021**	362,229	4.36	246.41
2004	180,733	5.89	122.94	**2013**	256,706	0.90	174.63				
2005	188,858	4.50	128.47	**2014**	267,989	4.40	182.30				
2006	201,171	6.52	136.85	**2015**	282,150	5.28	191.93				
2007	211,071	4.92	143.58	**2016**	292,120	3.53	198.72				

We would be pleased to discuss the economic forecast with you in detail.

Best regards,

William F. Fox

William F. Fox
Director

Boyd Center for Business and Economic Research
Haslam College of Business
716 Stokely Management Center, 916 Volunteer Boulevard
Knoxville, TN 37996-0570
865-974-5441 865-974-3100 fax cber.haslam.utk.edu

State Funding Board Guidelines for SEC Disclosures of Financial Obligations and Events of Default by Public Entities

1. BACKGROUND

Public Chapter 6, Acts of 2019 (the "Act") promotes transparency by requiring the disclosure of financial obligations, including bank loans, etc. and events of default by public entities in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12 and guidelines approved by the State Funding Board (the "Board") for events of default. Public entities with publicly-traded debt are required by the Act to report financial obligations and defaults or other events which reflect financial difficulties on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB). Public entities, that do not issue publicly-traded debt, are required to report events of default to the Office of the Comptroller of the treasury in accordance with these the State Funding Board Guidelines.

2. REPORTING

SEC Rule 15c2-12

The Act requires the Authorized Representative of a Public Entity with publicly-traded debt to ensure notice of financial obligations and events of default subject to any Post February 27, 2019 Continuing Disclosure Agreement (CDA) be reported within ten (10) business days of the event's occurrence on the MSRB's EMMA website in accordance with the requirements of SEC Rule 15c2-12. These Guidelines require that this reporting be performed as prescribed by the Public Entity's CDA, SEC Rule 15c2-12, and instructions found on the MSRB's EMMA website (https://emma.msrb.org).

Events of Default for Public Entitles that Does Not Issue Publicly Traded Debt

The Act requires the Authorized Representative of a Public Entity that does not issue publicly-traded debt report events of default as described in Sections 3 of these Guidelines to the Office of the Comptroller within 10 days of the event. The reporting format and method of delivery will be as prescribed by the Comptroller's Office.

If required information requires more room than on the reporting form additional information should be attached to the form.

3. REPORTING ITEMS AND DEFINITIONS FOR REPORTING FORM
   a. "Public Entity" - means the state, a state agency, a local government, a local government instrumentality, or any other authority, board, district, instrumentality, or entity created by the state, a state agency, local government, a local government instrumentality, or combination, thereof.
   b. "Financial obligation" - means a
      (A) debt obligation;

(B) derivative instrument entered in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(C) a guarantee of (A) or (B).

The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board (MSRB) consistent with 17 CFR 240.15c2-12 under the Securities and Exchange Act of 1934.

c. "Debt obligation" - means bonds, notes, capital leases, loan agreements, and any other evidence of indebtedness issued, executed or assumed by a public entity.

d. "Derivative" - means an interest rate agreement, as defined in TCA § 9-22-103, and such other transactions related to debt obligations as identified by the state Funding Board. If there a derivative product or contract associated with the defaulted debt issue report the notional amount of derivative, type, and termination value. If there is a termination event for the derivate report
e. "Event of default" - means default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.
f. "Name of Debt Issue" – means the name of the debt issuance as reported on the official statement or offering memorandum, loan document, or as reported in the financial statements.
g. "Type of Debt" - direct placement, loan, or conduit to a business, conduit to government, or debt of the IDC.

4. Other Reporting Items
   a. Authorized Representative.
   b. Preparer.
   c. Loan documents for debt without official statements or similar documents and ISDA Agreements for derivatives.
5. Other defined Terms
   a. "Authorized Representative" - The Chief Executive Office for the Entity
   b. "Preparer" – Individual who fills out the form
   c. "Organization" – The entity the Preparer works for if not an employee of the Public Entity.

Notice of Debt Default

A. **Name of Public Entity:** ______________________

Address: Street/P.O. Box ______________________

____

City, State Zip Code ______________________

B. **Contact Information:**

	Authorized Representative	**Preparer**
Name	______________	______________
Title	______________	______________
Phone Number	______________	______________
Email	______________	______________
Organization		______________

C. **Name of Defaulted Debt Issue** ______________________

D. **Amount of Defaulted Debt Issue** ______________

D. **Description of Debt**

Type of Debt ______________

Security ______________

Original Amount ______________

Type of Interest Fixed ________ Variable ________

Call Date ______________

Put Option Yes ________ No ________

Dated Date ____________ Closing Date ____________

E. **Debt Related Derivative** Yes ________ No ________

Type of Derivative

Nominal Amount

Final Maturity Date

Termination Value

F. **Type of Default**

F. **Date of Default**

G. **Reason for Default and Plans to Cure**

I. **Additional Comments (Include Information on Financial Impact of Default)**

*Please provide a copy of the Loan Documents, Lease Agreement, ISDA Agreement, or other Agreement whichever is applicable

J. **Signatures**

	Authorized Representative	**Preparer**
Signature		
Date		

K. **Date Notice of Default Filed with Comptroller of the Treasury**

Notice of Derivative Default

A. **Name of Public Entity:** ______________________

Address: Street/P.O. Box ______________________

____

City, State Zip Code ______________________

B. **Contact Information:**

	Authorized Representative	**Preparer**
Name	______________________	______________________
Title	______________________	______________________
Phone Number	______________________	______________________
Email	______________________	______________________
Organization		______________________

C. **Name of Associated Debt Issue** ______________________

D. **Amount of Associated Debt Issue** ______________________

D. **Description of Debt**

Type of Debt ______________________

Security ______________________

Original Amount ______________________

Type of Interest Fixed ________ Variable ________

Call Date ______________________

Put Option Yes ________ No ________

Dated Date ________________ Closing Date ________________

Is this the debt the derivative was originally entered for? Yes ________ No ________

E. **Debt Related Derivative** Yes ________ No ________

Type of Derivative

Nominal Amount

Final Maturity Date

Termination Value

F. **Type of Termination Event or Default for Derivative**

G. **Defaulting Party**

F. **Date of Termination Event or Default**

G. **Termination Event or Default and Close Out Netting Mechanism**

I. **Additional Comments (Include Information on Financial Impact of Default)**

*Please provide a copy of the Official Statement, Offering Circular, Loan Documents, Lease Agreement, ISDA Agreement, or other Agreement whichever is applicable.

J. **Signatures**

	Authorized Representative	**Preparer**
Signature		
Date		

K. **Date Notice of Default Filed with Comptroller of the Treasury**