TENNESSEE STATE FUNDING BOARD
November 13, 2015

The Tennessee State Funding Board (the "Board") met on Friday, November 13, 2015, at 8:30 a.m., in LP-16, Legislative Plaza, 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

The following members were absent:

The Honorable Bill Haslam, Governor
Commissioner Larry Martin, Department of Finance and Administration

Seeing a physical quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the September 15, 2015, Board meeting. Mr. Hargett made a motion to approve the minutes. Treasurer Lillard seconded the motion, and it was unanimously approved.

Mr. Wilson recognized that Representative Curtis Johnson and Senator Randy McNally were in attendance.

Mr. Wilson then recognized Mr. David Thurman; Director, Division of Budget, Finance and Administration; who presented a report on the October 2015 revenues. Mr. Thurman stated that on an accrual basis October is the third month in the 2015-2016 fiscal year. Mr. Thurman reported that collections for October were $970.8 million, which was 11.06% more than October 2014, and $90.7 million in excess of the budgeted estimate. General Fund collections for October were $91.0 million more than the budgeted estimate, and the four other funds that share in the state tax collections were $0.3 million less than the estimate. Mr. Thurman reported that sales tax collections were $36.8 million more than the estimate for October and the growth rate for October was 7.73%. Mr. Thurman reported that franchise and excise combined collections for October were $77.4 million, which was $39.0 million more than the budgeted estimate of $38.4 million; Mr. Thurman noted that this amount included a one-time corporate payment. Mr. Thurman reported that year-to-date collections for three months were $223.3 million more than the budgeted estimate and that the general fund was over collected by $207.8 million and the four other funds were over collected by $15.5 million. No action was necessary.

Mr. Wilson stated that, pursuant to Tennessee Code Annotated Section 9-4-5202(e), the Board is charged with the responsibility of developing consensus ranges of estimated state revenue growth. To assist the Board in doing so, the Board invited the following economists and persons acquainted with the Tennessee revenue system to make presentations: Mr. Lee Jones of the Federal Reserve Bank of Atlanta; Dr. William Fox of the University of Tennessee Center for Business and Economic Research; Commissioner Richard Roberts of the Tennessee Department of Revenue; and Mr. Robert Currey of the legislative Fiscal Review Committee ("FRC"). The Board heard testimony regarding the State's economy from those persons listed above.

Multiple presenters cautioned that while Tennessee's actual tax collections in the current fiscal year are outpacing budgeted revenue estimates, there are several concerns that could impact the future growth. Such factors included concerns over Japan, one of the United States largest trade partners who recently fell into a recession; retail sales for Tennessee were only stable to flat; and lower gas prices, which currently might add to consumer income, may not continue.

Pursuant to Tennessee Code Annotated Section 9-4-5202(b), the Tennessee Department of Revenue provides to the Board estimates of growth in franchise and excise tax revenue and includes in that estimation whether the growth is recurring or non-recurring. Additionally, the Board shall, pursuant to Tennessee Code Annotated Section 9-4-5202(e), identify and report whether any growth in the franchise and excise tax revenue is recurring or non-recurring. To fulfill these statutory obligations, the Department of Revenue reported non-recurring franchise and excise tax revenue growth of $150,000,000.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation ("TELC") from Mr. Currey and Mr. Andy Davis, Chief Financial and Technology Officer of the TELC. Legislation in 2003 created the TELC. Pursuant to Tennessee Code Annotated Section 4-51-111(c), the Board is required to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the four succeeding fiscal years.

The lottery presenters reported on historical results and growth reported in previous years for the various instant and numbers games and Powerball and Mega Millions jackpot games of the Tennessee lottery program. The lottery presenters summarized recent changes for TELC and also reported on revenue and expenses for fiscal year 2015-2016 year-to-date.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board, with the assistance of the Tennessee Student Assistance Corporation ("TSAC"), to project long-term funding needs of the lottery scholarship and grant programs. These projections are necessary to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard testimony from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs of Tennessee Student Assistance Corporation, who reported the projected expenditures in lottery scholarship and grant programs through the 2020-2021 academic year. The lottery-funded scholarship programs as authorized through the 2015 session of the General Assembly include Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, Hope Access Grant, Wilder-Naifeh Technical Skills Grant, Non-traditional Student Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, Helping Heroes Grant, the STEP UP Scholarship and Tennessee Student Assistance Award.

Mr. Wilson then presented a request from the Department of Education for $23,000 from Net Lottery Proceeds for Lottery Scholarship Day for fiscal year 2016-2017, pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B). Mr. Wilson explained that the requested 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. The Board recognized the request from the Department of Education and no further action was necessary.

Mr. Wilson then recognized Mr. Tim McClure, Director of Cash Management Division of the State of Tennessee Treasury Department, who discussed the disposition of the Lottery for Education Reserve. Mr. McClure reported that the Lottery for Education Reserve account was used as part of the funding mechanism for the Tennessee Promise program. Due to the funds being transferred out of the Lottery for Education Reserve account there will no longer be a need to report on this item at future Board meetings. No action was necessary.

Mr. McClure then presented a report on the State Pooled Investment Fund ("SPIF") for the fiscal year ended June 30, 2015. Mr. McClure reported the SPIF had a monthly average of $8.108 billion invested for the fiscal year ended June 30, 2015. Mr. McClure reported that the balances in the SPIF over the last five years have been stable. Mr. McClure reported that the dollar weighted average maturity of the SPIF for fiscal year 2014-2015 was 108 days, which was consistent with the Security and Exchange Commission's ("SEC") Rule 2a-7 as amended in 2010, which requires a dollar weighted average portfolio maturity of up

to 120 days and a maximum maturity of any single investment of 397 days or less. Mr. McClure reported that the SPIF met liquidity requirements of Rule 2a-7, which required 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. Mr. McClure reported that the portfolio was stress tested in accordance with Rule 2a-7 and in each case it achieved positive results. Mr. McClure reported that the income earned on the portfolio during the fiscal year ended June 30, 2015 totaled $11.1 million. Mr. McClure noted the average yields earned by asset type within the SPIF has started to increase gradually into governments and agency and CD asset types due to the forecast increase in the federal funds rate. Mr. McClure reported that the SPIF Investment Policy will need to be modified during 2016 due to the SEC's changes to Rule 2a-7 that were announced in July 2014 and 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 Government Accounting Standards Board ("GASB") is considering changes to Statement 31 and has issued an exposure draft that should be finalized in early 2016. At that time, options will be presented to the Board that will allow the Board to make the necessary decisions for the SPIF going forward. Mr. McClure reported that the cost to operate the SPIF was $4.27 million for the year ended June 30, 2015. No action was necessary.

Mr. McClure then presented a report on the Intermediate Term Investment Fund ("ITIF") for the fiscal year ended June 30, 2015. The ITIF was launched when the first participant invested $200 million on July 22, 2013. Mr. McClure reported that as of June 30, 2015, there were no additional investments, and the one participant in the fund had scheduled withdrawals of $40 million. Mr. McClure reported that during fiscal year 2015-2016, the average composition of the ITIF was 92.33% in US agencies and 7.67% in idle cash in the SPIF. Mr. McClure reported that the investment policy of the ITIF permits investments up to five years with an average maturity of three years and also noted that the ITIF is not designed to provide liquidity. Mr. McClure reported that during fiscal year 2015-2016, the ITIF increased in value 0.596% net of expenses. Mr. McClure stated that there were no investment policy changes anticipated during the current fiscal year. No action was necessary.

Mr. Wilson then recognized Mr. Ed Harries; Executive Director; and Ms. Danielle Brown, Controller, from the Tennessee State Veterans Home Board ("TSVHB"), who presented a report on TSVHB operations. TSVHB has three homes under operation; Murfreesboro, Humboldt and Knox County; and one home under construction in Clarksville. Ms. Brown reported that at September 2015 the TSVHB had a net loss of $(118,174), which is due to the start-up and debt costs for the new home being built in Clarksville. Mr. Harries reported that the occupancy rate of the three homes under operation, which is over 90%, exceeded the state occupancy rate of 77.7%. Ms. Brown and Mr. Harries summarized the patient mix for each home under operation, which is a key factor and drives revenues for the homes. Ms. Brown reported on the cash balances as of October 31, 2015 for the TSVHB. Ms. Brown then reported that for the audit of fiscal year ended June 30, 2014, TSVHB received one audit finding related to internal controls in one specific area related to information technology. Ms. Brown reported that on December 3, 2014, Performance Audit issued its report on the operational efficiency and effectiveness of the TSVHB and the report included findings in three areas; disaster plans, turnover and Title Vl. Mr. Brown stated that TSVHB implemented controls in all three areas related to the findings. Mr. Harries reported that the TSVH in Murfreesboro had a Tennessee Department of Health ("TDOH") survey completed in August 2015 with six minor clinical deficiencies and noted that none of the deficiencies compromised patient care. The Murfreesboro home received no deficiencies from the Department of Veterans Affairs ("VA") review in June of 2015. Mr. Harries reported that Humboldt's survey and review from TDOH and VA had zero clinical deficiencies. Mr. Harries reported that Knox County had zero deficiencies from the TDOH survey and the review from VA which indicated three minor deficiencies. No action was necessary.

After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene November 19, 2015 at 2:00 p.m. in Legislative Plaza, Room LP-29.

The Tennessee State Funding Board meeting that was scheduled to meet on November 19, 2015 was rescheduled for Monday, November 23, 2015 in LP-30 at 11:25 a.m.

RECONVENED
November 23, 2015
11:25 a.m.

The Board reconvened on November 23, 2015 at 11:25 a.m., in the Legislative Plaza, Room LP-30, Nashville, Tennessee. The following members were present:

The Honorable Tre Hargett, Secretary of State
The Honorable Justin P. Wilson, Comptroller of the Treasury
The Honorable David Lillard, State Treasurer
Commissioner Larry Martin, Department of Finance and Administration

The following member was absent:

The Honorable Bill Haslam, Governor

Seeing a quorum present, Mr. Wilson called the meeting to order.

Mr. Wilson then recognized Mr. Thurman who presented the staff recommendations of the consensus recurring revenue estimates expressed in ranges of growth rates in State taxes. The consensus total tax and general fund tax revenue growth estimates displayed below do not account for the non-recurring growth of $150,000,000 reported by the Department of Revenue at the November 13, 2015 meeting.

	FY 2015-2016		FY 2016-2017	
	Low	High	Low	High
Total State Taxes	2.80%	3.30%	2.50%	3.00%
General Fund	2.90%	3.40%	2.75%	3.25%

The Board noted that while it is difficult to precisely predict revenue ranges, they believe that these ranges are reasonable for use in state budgeting. Commissioner Martin made a motion to approve the consensus revenue estimates as recommended by staff. Comptroller Wilson seconded the motion and it was unanimously approved.

Mr. Thurman then presented the staff recommendations of the estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for various statutory purposes.

	FY 2015-2016	FY2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
Low	$341,970,000	$348,100,000	$352,600,000	$357,200,000	$361,800,000
High	$347,024,000	$357,600,000	$365,800,000	$373,100,000	$380,600,000

Mr. Lillard made a motion to approve the estimates of the range for Net Lottery Proceeds as recommended by staff. Mr. Hargett seconded the motion and it was unanimously approved.

Mr. Wilson then presented a letter from the Tennessee Lottery Corporation notifying the Board, pursuant to Tennessee Code Annotated 4-51-111(a)(3), that TEL determined that an amount that maximizes net lottery proceeds to the State of Tennessee Lottery for Education Account is less than 35% of lottery proceeds for fiscal year 2016. No action was necessary.

Mr. Wilson then stated that the Agenda Item for approval of funding for FastTrack projects presented by the Tennessee Department of Economic and Community Development would be deferred to the next Board meeting.

Mr. Wilson then recognized Mr. Charly Lyons, Executive Director, and Mr. Anthony Holt, Chairman, from Four Lake Authority/Tennessee Central Economic Alliance ("4L"). Mr. Lyons reported on highlights of 4L from the past year. Mr. Lyons noted that Community Correction Authority was preparing to open a new prison on the 4L PowerCom industrial site. No action was necessary.

Mr. Wilson then recognized Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Office of State and Local Finance, who presented a report on the State of Tennessee commercial paper ("CP") program. Ms. Thompson summarized the following points for the period July 1, 2015 to October 31, 2015:

- The outstanding balance as of October 31 for tax-exempt CP was $281,823,000 and $25,863,000 for taxable CP; approximately $116,000,000 of the tax-exempt CP will be redeemed by bond proceeds.

- The interest rates for taxable CP ranged from 0.13% to 0.21% and 0.06% to 0.13% for tax-exempt CP.

No action was necessary.

Ms. Wilson then presented a report on the sale of General Obligation Bonds, 2015 Series A and 2015 Refunding Series B. Mr. Wilson reported that the par amount of the 2015 Series A new money tax-exempt bonds was $286,275,000 and the par amount of the 2015 Series B refunding bonds was $97,490,000. Mr. Wilson reported that the Series B refunding bonds had a present value savings of $8,883,599. Mr. Wilson reported that Standard and Poor's Rating Agency upgraded the outlook on the State of Tennessee debt rating from stable to positive. No action was necessary.

Mr. Wilson then presented the Repot on Debt Obligation (CT-0253) for the State's 2015 bond sale. Mr. Wilson noted that it appears that the overall costs of issuance for the bond were reasonable. No action was necessary.

Mr. Wilson then reported that a copy of the Tennessee State Funding Board's Debt Management Policy was provide to the Board members. Mr. Wilson stated that Comptroller office staff had reviewed the policy and there were no recommended changes at this time. Mr. Wilson asked for any of the Board members had any comments on the policy and there were none. No action was necessary.

Mr. Wilson then presented for consideration and approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund $1,400,000 and Canceling Authorized Bonds". Mr. Wilson stated that this resolution was related to the cancellation of bond authorization for the West Tennessee Megasite project. Mr. Lillard made a motion to approve the resolution. Mr. Hargett seconded the motion and it was unanimously approved.

Mr. Wilson the presented for consideration and approval a "Resolution Allocating from the Internal Service Fund to the Capital Projects Funds $4,380,000 and Canceling Authorized Bonds". Mr. Wilson stated that his resolution was related to the cancellation of bond authorization for the Edison project. Mr. Lillard made a motion to approve the resolution. Commissioner Martin seconded the motion and it was unanimously approved.

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

Approved on this 20th day of January, 2016.

Respectfully submitted,

Sandra Thompson

Sandra Thompson
Assistant Secretary