

TENNESSEE STATE FUNDING BOARD
November 17, 2016

The Tennessee State Funding Board (the "Board") met on Thursday, November 17, 2016, at 12:30 p.m., in the Legislative Plaza, Room LP-16, 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 member was absent:

The Honorable Bill Haslam, Governor

Mr. Wilson recognized the following legislators that were in attendance:

Senator Randy McNally
Senator Bo Watson
Representative Charles Sargent
Representative Steve McDaniel
Representative Sam Whitson
Representative Glen Casada

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

Mr. Wilson asked for approval of the minutes from the September 21, 2016 Board meeting. Mr. Hargett made a motion to approve the minutes. Mr. Lillard seconded the motion and it was unanimously approved.

Mr. Wilson then recognized Commissioner Martin who presented a report on the October 2016, revenues. Commissioner Martin reported that revenues for the month of October were \$983.3 million, which was 1.29% more than revenues for the month of October 2015, and \$44.0 million in excess of the budgeted estimate. Commissioner Martin reported that the October growth rate for sales tax revenues was 4.52% while the October year-to-date growth rate was 3.72%. Commissioner Martin pointed out that total revenue growth year-to-date compared to fiscal year 2015-2016 actual collections was 4.55%; however, the total revenue growth for October 2016 compared to October 2015 was only 1.29%. No action was necessary.

Mr. Wilson then 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 Boyd Center for Business and Economic Research; Dr. Jon Smith and Dr. Joseph Newhard of East Tennessee State University; 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 of Tennessee's (the "State") economy from those persons listed above.

Multiple presenters cautioned that while Tennessee's actual tax collections in the current fiscal year have outpaced budgeted revenue estimates, the growth rates are most likely unsustainable. Factors for that belief include: forecasted GDP growth close to 2%; inflationary pressures; and continued diversion of retail sales from brick-and-mortar storefronts to online purchasing.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation (“TELC”) from Mr. Currey; and Ms. Rebecca Hargrove, President, and Mr. Andy Davis, Chief Financial Officer, both from 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 year-to-date revenue and expenses for fiscal year 2016-2017.

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 2021-2022 fiscal year. The lottery-funded scholarship programs as authorized through the 2016 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, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, TCAT Reconnect Grant, and the Math & Science Teacher Loan Forgiveness Program.

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 2017-2018, 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 of the State of Tennessee Treasury Department, who presented a report on the State Pooled Investment Fund (“SPIF”) for the fiscal year ended June 30, 2016. Mr. McClure reported the SPIF had a monthly average of \$9.18 billion invested for the fiscal year ended June 30, 2016. Mr. McClure stated that the average portfolio composition of the SPIF for fiscal year 2015-2016 was made up of U.S. Agencies (45.92%), U.S. Treasuries (28.33%), Collateralized CD’s (12.42%), Commercial Paper (7.27%) and Overnight Sweep (6.06%). Mr. McClure stated that the balance of funds available to invest on behalf of the General Fund (Unrestricted Accounts) was \$4.93 billion at June 30, 2016, which is approximately \$1 billion more than each of the previous four fiscal years. Mr. McClure explained that the SPIF follows the Governmental Accounting Standards Board’s (GASB) Statement 79, which allows government funds to be reported at amortized cost and transact at a stable dollar. The Board voted to change the Investment Policy to comply with GASB 79 on April 7, 2016. Mr. McClure stated that the average number of days to maturity of the SPIF for fiscal year 2015-2016 was 92. Mr. McClure reported that at June 30, 2016, the SPIF was in compliance with liquidity requirements of GASB 79 that require no more than 5% of the portfolio be invested in illiquid securities, at least 10% of the portfolio be invested in daily liquid assets, and at least 30% of the portfolio be invested in weekly liquid assets. Mr. McClure reported that stress tests conducted during fiscal year 2015-2016 revealed that, in each case, the results of the tests were successful. Mr. McClure reported that the estimated income earned on the portfolio of the SPIF during fiscal year 2015-2016 totaled \$25.63 million. Mr. McClure stated that the average yield of the SPIF (net of administrative fee) compares favorably to other recognized money market

funds. Mr. McClure stated that because the SPIF Investment Policy was revised and approved by the Board on April 7, 2016, no additional changes were anticipated during the current fiscal year. Mr. McClure stated that the cost to operate the SPIF was \$4.44 million for the fiscal year ended June 30, 2016, that is offset by a 4 basis point administrative fee for assets invested. No action was necessary.

Mr. McClure then presented a report on the Intermediate Term Investment Fund ("ITIF") for the fiscal year ended June 30, 2016. Mr. McClure explained that the ITIF was launched on July 22, 2013, when the first participant invested \$200 million and as of June 30, 2016, there were no additional investments and the participant had withdrawals that totaled of \$140 million. Mr. McClure reported that for the period July 22, 2013, through June 30, 2016, the ITIF had a market value increase of 2.04% and during fiscal year 2015-2016 increased in value by 0.849%, 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. Charly Lyons and Mr. Michael Nesbitt from the Tennessee Central Economic Authority (the "Authority") (formerly Four Lakes) who presented a report on the Authority operations over the past year. Mr. Lyons explained that the Authority is an economic development organization that operates in the counties of Macon, Smith, Sumner, Trousdale and Wilson. Mr. Lyons reported that the General Fund Budget that was presented to the Board was approximately \$320,000 for the period July through October 2016. Mr. Lyons reported that the General Fund had revenues in excess of expenditures for the last three years. Mr. Lyons then reported that the Board was also provided a Capital Improvement Budget for the period July through October 2016, which deals with grants and infrastructure work performed. Mr. Lyons reported that the major on-going current project is a state industrial access road leading into the PowerCom Industrial Center. No action was necessary.

Mr. Wilson then presented for consideration the Other Post Employment Benefit (OPEB) Trust for the Knox County Post-Retirement Incentive Medical Trust. Mr. Wilson explained that Comptroller staff reviewed the OPEB Trust and that it met all the requirements of the statute. Mr. Wilson made a motion to approve the OPEB Trust for the Knox County Post-Retirement Incentive Medical Trust. Commissioner Martin seconded the motion and it was unanimously approved.

Mr. Wilson then stated that consideration of the Rockwood Electric Utility OPEB Trust listed on the Agenda would be deferred to the next Board meeting.

After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene on November 29, 2016 at 10:00 a.m. in the Legislative Plaza, Room LP-29.

RECONVENED
November 29, 2016
10:00 a.m.

The Board reconvened on November 29, 2016 at 10:00 a.m., in the Legislative Plaza, Room LP-29, and Nashville, Tennessee. The following members were present.

The Honorable Tre Hargett, Secretary of the State of Tennessee
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

Mr. Wilson recognized the following legislators that were in attendance:

Senator Bo Watson
Representative Charles Sargent
Representative Glen Casada

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

Mr. Wilson then recognized Mr. David Thurman, Director of the Division of Budget with the Department of Finance and Administration, who presented the staff recommendations of the consensus recurring revenue estimates expressed in ranges of growth rates in State taxes.

	<u>FY 2016-2017</u>		<u>FY 2017-2018</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Total State Taxes	2.50%	3.00%	2.32%	2.82%
General Fund	2.75%	3.25%	2.67%	3.17%

The Board noted that while it is difficult to precisely predict revenue ranges, the Board believes that these ranges are reasonable for use in state budgeting. The Board also noted that these ranges are based on statutory tax provisions through the 2016 session of the General Assembly. Mr. Lillard made a motion to approve the consensus revenue estimates as recommended by staff. Commissioner Martin 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.

	<u>FY 2016-2017</u>	<u>FY 2017-2018</u>	<u>FY2018-2019</u>	<u>FY2019-2020</u>	<u>FY 2020-2021</u>
Low	-3.40%	1.40%	1.30%	1.30%	1.30%
High	-1.00%	2.30%	2.00%	2.00%	2.00%

Mr. Hargett commented that the range for FY 2017-2018 seemed ambitious compared to the estimates from the lottery presenters. Mr. Lillard also commented that the range for FY2017-2018 appeared to be a little high.

Mr. Wilson made a motion to approve revised estimates of the range for Net Lottery Proceeds as follows:

	<u>FY 2016-2017</u>	<u>FY 2017-2018</u>	<u>FY2018-2019</u>	<u>FY2019-2020</u>	<u>FY 2020-2021</u>
Low	-3.40%	1.00%	1.30%	1.30%	1.30%
High	-1.00%	2.00%	2.00%	2.00%	2.00%

Commissioner Martin seconded the motion and it was unanimously approved.

Pursuant to Tennessee Code Annotated 4-51-111(a)(3), the TELC may make a determination that returning a specific percentage of sales as net proceeds (35%) would not result in the maximum dollar amount of net proceeds. Mr. Wilson acknowledged receipt of a letter from TELC notifying the Board that TELC had 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 2017. No action was necessary.

Mr. Wilson then recognized Mr. Allen Borden, Assistant Commissioner for Business Development, Tennessee Department of Economic and Community Development (ECD), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Senior Advisor for Fiscal Policy, ECD, to present the "FastTrack Report to the State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting, the FastTrack balance was \$206,103,902.67. Since that time, \$971,684 in funds were transferred to the business development division for incentives for the General Motors Triple Crown Project; \$4,404,652 in new loans had been approved and \$552,698.85 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants or loans of \$200,174,867.82 as of the date of the Report. Mr. VanderMeer reported that the state had made commitments in the amount of \$165,967,108.61 to FastTrack projects, resulting in an uncommitted FastTrack balance of \$34,207,759.21. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$10,919,500, and if these projects were approved, the uncommitted balance would be \$23,288,259.21 and the committed balance would be \$176,886,608.61, or 88.4% of the FastTrack balance.

Mr. Sargent posed the following question. When additional infrastructure, such as new roads or interstate exchanges, are needed for new, large ECD projects, where, in the Tennessee Department of Transportation (TDOT) budget does that funding come from, and, does the funding of the ECD project take funds away from a planned State TDOT project. Ms. Jamie Stitt, Deputy Assistant Commission of Business Development, ECD, explained that ECD works closely with TDOT on planning and funding of the infrastructure from the TDOT budget, which includes the State Industrial Access Fund that is specifically for economic development projects where new jobs are created. Commissioner Martin explained that within the TDOT budget there would be a consideration of funds to be earmarked for economic development projects and therefore would not be taking funds from an existing TDOT project. The Board requested that ECD report back to the Board at a later meeting regarding the balances in TDOT funds that are restricted for use on economic development projects.

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

• HTS International Corporation – Knoxville (Knox. Co.) FastTrack Economic Development	\$1,000,000
• Warner Music Group Corp. – Nashville (Davidson Co.) FastTrack Economic Development	\$1,000,000
• Huber Engineered Woods LLC – Spring City (Rhea Co.) FastTrack Economic Development	\$1,500,000
• General Motors LLC – Spring Hill (Maury Co.) FastTrack Job Training Assistance	\$6,000,000
• Forward Air Corporation – Greenville (Greene Co.) FastTrack Economic Development	\$1,155,000
• Ryder Integrated Logistics, Inc. – Jackson (Madison Co.) FastTrack Job Training Assistance	\$ 54,500
• Resolute Forest Products US Inc. – Calhoun (McMinn Co.) FastTrack Job Training Assistance	\$ 210,000

Mr. Wilson stated that the Board received signed letters, FastTrack checklists and incentive acceptance letters from the Commissioner of ECD. Mr. Wilson inquired if the information provided in the ECD packets was true and correct. Mr. Borden responded affirmatively. Commissioner Martin made a motion to approve the FastTrack projects that were presented. Mr. Hargett seconded the motion and it was unanimously approved.

Mr. Wilson then recognized Mr. Ed Harries, Executive Director, and Ms. Danielle Brown, Controller, from the Tennessee State Veterans Home (TSVH), who presented a report on TSVH operations. Ms. Brown reported that at October 31, 2016, TSVH (excluding the Clarksville home, which is in the start-up stage) had a net profit of approximately \$638,000. Ms. Brown explained that for the period July 1, 2016 through October 31, 2016 TSVH (including the Clarksville home) had a loss of \$260,000. Ms. Brown stated that the Clarksville home has three of nine houses operating at capacity and the fourth and fifth homes are expected to be operating within two weeks. Ms. Brown reported that the cash balances at October 31, 2016 were \$13.3 million. Ms. Brown stated that at October 31, 2016 most patients in the homes are predominately private pay. Mr. Harries reported the occupancy rate at Murfreesboro was 95%, Humboldt was 94%, Knoxville was 97.2%, and Clarksville was 23% (or 69% of open beds) and that each of the home's (excluding Clarksville) occupancy rates exceeded the state average occupancy rate of 77.1%. Ms. Brown reported that TSVH received two audit findings for fiscal year ended June 30, 2015; one related to a lack of effectiveness in internal controls in one specific area and the second finding was related to an error in construction grant accounting. Mr. Harries reported that Murfreesboro and Knoxville each had four-star rated Centers for Medicare and Medicaid Services (CMS) and Humboldt had a five-star rated CMS. Mr. Harries also explained other regulatory oversight that occurred over the past year for TSVH. Mr. Harries reported that TSVH staffs their homes well above state and federal requirements. Mr. Harries explained that the Clarksville home, due to its layout, is staffed at a higher level than the other three homes. Mr.

Lillard asked if the Clarksville home was expected to start operating at a positive cash flow after it reached budgeted capacity and Mr. Harries responded affirmatively. No action was necessary.

Mr. Wilson then recognized Ms. Sandi Thompson, Director of the Office of State and Local Finance, who presented a report on the State's commercial paper (CP) program. Ms. Thompson reported the following points for the period July 1, 2016 to October 31, 2016:

- The outstanding balance at October 31, 2016 for taxable CP was \$23,063,000 and for tax-exempt CP was \$96,697,000.
- The average daily balance for taxable CP was \$23,984,951 and for tax-exempt CP was \$181,073,976; the average daily balance was higher than the outstanding balance for tax-exempt CP because the State had a bond sale in July and paid down a portion of the outstanding CP with those bond proceeds.
- The taxable CP interest rate ranged from 0.45% to 0.70%, with a weighted average yield of 0.53%.
- The tax-exempt CP interest rate ranged from 0.45% to 0.92%, with a weighted average yield of 0.62%.

Ms. Thompson then reported the following points for the period July 1, 2015 to June 30, 2016:

- The average daily balance for taxable CP was \$24,948,792 and for tax-exempt CP was \$224,189,038.
- The taxable CP interest rate ranged from 0.10% to 0.50%, with a weighted average of 0.32%.
- The tax-exempt CP interest rate ranged from 0.02% to 0.56%, with a weighted average yield of 0.17%.
- The CP program expenses included the standby purchase agreement fee of \$1,050,000, dealer services fee of \$118,461, issuing and paying agent fee of \$3,500.

No action was necessary.

Mr. Wilson then presented for consideration the OPEB Trust for Rockwood Electric Utility. Mr. Wilson explained that Comptroller staff reviewed the OPEB Trust and that it met all the requirements of the statute, however; there is a possibility of an amendment relating to other parts of the Trust. Mr. Lillard made a motion to approve the OPEB Trust for the Rockwood Electric Utility contingent upon it meeting the necessary requirements to the satisfaction of the State Attorney General's Office and the Office of State and Local Finance. Mr. Hargett seconded the motion, and it was unanimously approved.

Hearing no other business, Mr. Wilson adjourned the meeting.

Approved this 16th day of February 2017.

Respectfully submitted



Sandra Thompson
Assistant Secretary