

TENNESSEE STATE FUNDING BOARD

November 20, 2017

The Tennessee State Funding Board (the "Board") met on Monday, November 20, 2017, at 12:30 p.m., in the William R. Snodgrass (Tennessee Tower), 3rd Floor, Nashville Room, 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

Seeing a physical quorum present Mr. Wilson called the meeting to order and asked for approval of the minutes from the September 8, 2017, meeting. Mr. Wilson 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 2017 revenues. Commissioner Martin reported that revenues for the month of October were \$1.0 billion, which was \$31.1 million more than revenues for the month of October 2016, and \$1.3 million less than the budgeted estimate. Commissioner Martin reported that the October growth rate for sales tax revenues was 3.16%. Commissioner Martin stated that October revenues results were mixed. Sales tax, the best economic indicator, grew at a relatively modest rate while corporate revenues, realized from the franchise and excise taxes, recorded negative growth. Commissioner Martin pointed out that total revenue growth year-to-date for three months were \$42.7 million more than the budgeted estimate. The general fund exceeded estimate by \$21.4 million and the four other funds that share in state tax revenues exceeded estimates by \$23.1 million. 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 David Gerregano of the Tennessee Department of Revenue; and Ms. Krista Lee, Director, and Mr. Bojan Savic, Chief Economist of the Fiscal Review Committee (the "FRC"). The Board heard testimony regarding the State of Tennessee's (the "State") economy from those persons listed above.

The presenters forecasted economic growth and state revenue tax growth in line with long-term averages for both items while citing the downside risk of the overly-long economic expansion in both the U.S. and Tennessee. Multiple presenters also cautioned that statutory changes made to multiple taxes- including sales and use, franchise and excise, gasoline, and motor fuel – during the 2017 legislative session could introduce uncertainty into the estimation of state tax revenue growth for fiscal years 2017-2018 and 2018-2019. No action was necessary.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation (the "TELC") from Ms. Lee; 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 reported on year-to-date revenue and expenses for fiscal year 2017-2018. No action was necessary.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board, with the assistance of the Tennessee Student Assistance Corporation (the "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 2017 session of the General Assembly include the 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, and the Math & Science Teacher Loan Forgiveness Program. No action was necessary.

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 2018-2019, 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 stated the Report from the Department of Economic and Community Development("ECD") for approval of funding for projects listed on the Agenda would be deferred until the Funding Board meeting on November 27, 2017.

After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene on November 27, 2017 at 1:00 p.m. in the Tennessee Tower, 3rd Floor, Nashville Room.