

TENNESSEE STATE FUNDING BOARD

November 20, 2018

The Tennessee State Funding Board (the "Board") met on Tuesday, November 20, 2018, at 8:30 a.m., in the Cordell Hull Building, 1st Floor, Senate Hearing Room I, 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 recognized Commissioner Martin who presented a report on the October 2018 revenues.

Commissioner Martin reported that revenues for the month of October were greater than the budgeted estimate and driven by Franchise and Excise ("F&E") tax collections. Commissioner Martin further reported that the revenue from F&E was almost 15% above what was budgeted. Commissioner Martin pointed out the need for continued conservative spending as there had been volatility in the market that could have a negative impact on consumer confidence, which would show up in sales tax performance. Commissioner Martin further stated that sales tax collections comprise 61% of tax revenues collected in the state. Commissioner Martin reported that revenues for the 1st quarter of fiscal year 2018-2019 were greater than the budgeted estimate and bodes well for finishing positive in fiscal year 2018-2019. No action was necessary.

Mr. Wilson then presented the minutes from September 13, 2018, meeting, and barring any further comment, asked approval of the minutes. Mr. Hargett made a motion to approve the minutes. Mr. Martin seconded the motion, and it was approved.

Mr. Wilson then stated that, pursuant to Tennessee Code Annotated Section 9-4-5202(e), the Board is charged with the responsibility of developing estimates of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts supplied by various economists as well as persons acquainted with the Tennessee revenue system. The Board heard testimony and reports regarding the economy from economists and persons acquainted with the Tennessee revenue system. The presenters were: Dr. William Fox of the University of Tennessee Boyd Center for Business and Economic Research; Ms. Laurel Graefe of the Federal Reserve Bank of Atlanta; Dr. Jon Smith, Dr. Joseph Newhard, and Dr. Fred Makara of East Tennessee State University; Commissioner David Gerregano and Dr. Michael House, Staff Economist, of the Tennessee Department of Revenue; and Mr. Robert Currey, Assistant Director, and Mr. Bojan Savic, Chief Economist of the Fiscal Review Committee (the "FRC").

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 the recent Supreme Court decision regarding collection of sales and use tax from on-line retailers (*South Dakota v. Wayfair*) will not have a significant impact on future tax collections.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation (the "TELC") from Mr. Curry and Mr. Savic; and Mr. Andy Davis, Chief Financial Officer, from 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 reported on year-to-date revenue and expenses for fiscal year 2018-2019. 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 fiscal year 2022-2023. The lottery-funded scholarship programs as authorized through the 2018 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, the Math & Science Teacher Loan Forgiveness Program, the Tennessee Middle College Scholarship, and Tennessee Reconnect. 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 2019-2020, 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. Mr. Wilson made a motion to approve the request. Mr. Hargett seconded the motion, and it was unanimously approved.

After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene on November 26, 2018, at 1:00 p.m. in the Cordell Hull Building, 1st Floor, Senate Hearing Room I.

RECONVENED
November 26, 2018
1:00 p.m.

The Board reconvened on November 26, 2018 at 1:00 p.m., in the Cordell Hull Building, 1st Floor, Senate Hearing Room I, 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

Seeing a quorum present, Mr. Wilson called the meeting to order and recognized Mr. Paul VanderMeer, Assistant Commissioner of Administration, Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and the "FastTrack Report to the State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting on September 13, 2018, the FastTrack balance was \$336,487,180.92. Since that time, \$5,082,711.72 in funds were deobligated and returned to the FastTrack program. Mr. VanderMeer then reported that \$44,410,000.00 in new grants or loans greater than \$750,000 and \$3,880,100.00 in new grants or loans less than \$750,000 were approved. Mr. VanderMeer also reported that \$762,796.39 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$292,516,996.25 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$269,299,647.74, resulting in an uncommitted FastTrack balance of \$23,217,348.51, which represented 92.1% of the FastTrack balance. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$1,747,000.00, and if these projects were approved, the uncommitted balance would be \$21,470,348.51 and the total commitments would be \$271,046,647.74, which represented 92.7% of the FastTrack balance.

Mr. VanderMeer then presented the following FastTrack projects:

- **Granges Americas Inc. – Huntingdon (Carroll County)**
FastTrack Economic Development Grant \$ 975,000
- **Keep Trucking, Inc. – Nashville (Davidson County)**
FastTrack Job Training Assistance Program \$ 772,000

The Board received in their packets signed letters, FastTrack checklists, and incentive acceptance forms signed by Mr. Bob Rolfe, Commissioner of ECD. Mr. Wilson inquired if the information provided in the ECD packets was true and correct and Mr. VanderMeer responded affirmatively. Mr. Wilson then inquired if the companies that signed the incentive acceptance forms fully understood the agreements and Mr. VanderMeer responded affirmatively. Mr. Lillard inquired if ECD will have formal contracts with the companies that are receiving grants that include clawback provisions. Mr. VanderMeer responded that Economic Development Grants include clawbacks and FastTrack Job Training Grants are paid based on the number of actual jobs created. Mr. Wilson made a motion to approve the FastTrack projects that were presented. Mr. Martin seconded the motion, and it was unanimously approved.

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 recurring revenue estimates expressed in ranges of growth rates in State taxes.

	<u>FY 2018-2019</u>		<u>FY 2019-2020</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Total State Taxes	2.35%	3.25%	2.73%	3.13%
General Fund	2.20%	3.20%	2.71%	3.21%

Mr. Wilson made a motion to approve the revenue estimates as recommended by staff. Mr. Lillard 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. Mr. Thurman stated that there was potential for a reduction in Net Lottery Proceeds in fiscal year 2019-2020 as a result of non-recurring revenue caused by extraordinary lottery amounts in fiscal year 2018-2019.

	<u>FY 2018-2019</u>	<u>FY 2019-2020</u>	<u>FY 2020-2021</u>	<u>FY 2021-2022</u>	<u>FY 2022-2023</u>
Low	2.60%	-0.50%	1.50%	1.50%	1.50%
High	3.60%	1.50%	2.50%	2.50%	2.50%

Mr. Wilson made a motion to approve the lottery revenue estimates as recommended by staff. Mr. Lillard 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 being achieved. 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 2018-2019. The amount currently projected for the fiscal year ranges from \$411 million to \$422 million. The Board acknowledged the letter.

Mr. Wilson then recognized Mr. Charly Lyons and Mr. Steve Jones from the Tennessee Central Economic Authority (the "Authority") (formerly Four Lake Authority) 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 2018/2019 Fiscal Year-End Budget" along with the "General Fund - Budget vs. Actual-July through October 2018" was provided to the Board members in their packet. Mr. Lyons then reported that the Board was also provided the "Capital Improvements Fund 2018/2019 Fiscal Year-End Budget" and the "Capital Improvement Fund - Budget vs. Actual - July through October 2018", which deals with grants and infrastructure work performed. Mr. Lyons further reported that the Authority had issued \$142,000.00 in grants and assisted Smith County with a \$1,000,000.00 site development grant. 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 (the "TSVHB"), who presented a report on TSVHB operations. Ms. Brown reported that for the period July 1, 2018 through September 30, 2018, net income exceeded the budgeted amount by approximately \$1,080,000.00 as a result of the patient mix and census for the Murfreesboro and Knox County facilities. Ms. Brown then reported that for the month of October 2018,

each facility was reporting the following average daily census and occupancy information: Murfreesboro – 134 (96.0% occupancy), Humboldt – 133 (95.1% occupancy), Knox County – 135 (96.5% occupancy) and Clarksville – 106 (98.6% occupancy). Ms. Brown explained that the Clarksville facility was close to breaking even and that the goal for this year was for the facility to be profitable. Ms. Brown reported that the occupancy rate at the facilities exceeded the state occupancy rate of 74.7%. Ms. Brown also reported that the total cash balance in the Local Government Investment Pool (LGIP) for all facilities was \$15,767,629 as of October 31, 2018. Mr. Harries discussed CMS star ratings, regulatory oversight, staffing and occupancy at all homes. Mr. Harries reported that a 108 bed facility in Cleveland was in the construction document phase. Mr. Harries also reported that property had been purchased for a future 126 bed planned facility in Arlington and that TSVHB was in search of land for a planned 108 bed facility in the Tri-Cities area. Mr. Wilson inquired if it was correct that TSVHB was on a path to correct the findings of TSVHB's Performance Audit issued on October 31, 2018. Mr. Harries responded affirmatively. Mr. Lillard inquired about the loss reported on the Clarksville facility for the 1st quarter of the year and for more explanation about the design of the Clarksville facility being a factor in the reported loss. Mr. Harries responded that the Clarksville facility was built to adhere to the 2008 guidelines, required by the U.S. Department of Veterans Affairs (the "VA"), and that the design was not conducive to operations. Mr. Harries further stated that the separate house design, with 12 beds each, necessitated having more staff per patient, reducing profitability. Mr. Lillard asked what impact that design will have on Cleveland and other future facilities. Mr. Harries responded that the VA had softened requirements, allowing the TSVHB an increased bed count per structure, which should make the setup economically feasible. Mr. Lillard then inquired if there was a waiver relief from the VA for the Clarksville facility to enhance their operating results. Mr. Harries responded in the negative but further responded that the TSVHB was taking steps that were projected to result in the facility becoming profitable. No 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, 2018. Mr. McClure reported the SPIF had a monthly average of \$11.03 billion invested for the fiscal year ended June 30, 2018 of which \$5.14 billion was attributed to the General Fund. Mr. McClure stated that the average portfolio composition of the SPIF for fiscal year 2017-2018 was made up of U.S. Agencies (62.07%), U.S. Treasuries (9.53%), Collateralized CD's (17.23%), Commercial Paper (4.68%) and Overnight Sweep (6.48%). Mr. McClure reported on the average daily balances, performance, weighted average maturity, weighted average life and daily and weekly liquid assets, credit quality and diversification, and shadow pricing of the SPIF. Mr. McClure reported that stress tests conducted during fiscal year 2017-2018 revealed that, in each case, the results of the tests were successful. Mr. McClure stated that the SPIF Investment Policy was operating well and no changes were recommended to the policy for the current fiscal year. Mr. McClure stated that a 4 basis point administrative fee is charged to all participants to administer the program. No action was necessary.

Mr. McClure then presented a report on the Intermediate Term Investment Fund ("ITIF") for the fiscal year ended June 30, 2018. Mr. McClure explained that the ITIF was launched on July 22, 2013, when the first participant invested \$200 million and as of June 30, 2018, there were no additional investments and the participant had withdrawals that totaled of \$140 million since inception. Mr. McClure stated that the objective of the ITIF was to take advantage of the expected additional return from investing farther out on the yield curve and stated that the fund is not designed to provide liquidity. Mr. McClure reported that for the period July 22, 2013, through June 30, 2018, the ITIF had a market value increase of 2.37% and during fiscal year 2017-2018 decreased in value by 0.11%, net of expenses. Mr. McClure further reported that rising interest rates was the cause of the first loss for the ITIF since inception but that the ITIF still outperformed its peers. Mr. McClure stated that there were no investment policy changes anticipated during the current fiscal year. Mr. McClure stated that the investment plan moving forward was to shorten the fund to be able to take advantage of rising interest rates. No action was necessary.

Mr. Wilson then presented for consideration and approval an amendment to the financial advisor contract with PFM Financial Advisors LLC (PFM). Mr. Wilson explained that the amendment would extend the contract term for one additional year ending December 31, 2019, as permitted under the original agreement. Mr. Hargett made a motion to approve the amendment to the contract with PFM. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for consideration and approval the Bolivar Energy Authority Declaration of Trust for Other Post-Employment Benefits. Mr. Wilson stated that he had reviewed the trust and it appeared to be in order. Mr. Wilson made a motion to approve the OPEB trust. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for approval a "Resolution Allocating from the Internal Service Fund to the Capital Projects Fund \$4,379,930.67 and Canceling Authorized Bonds." Mr. Wilson explained that the Resolution was to cancel the bond authorization related to the Enterprise Resource Planning Software project, as was recommended in a memo, dated November 15, 2018, from the Commissioner of Finance and Administration. Mr. Wilson further stated the Resolution would be effective December 7th, 2018 when the commercial paper was scheduled for repayment. Mr. Wilson made a motion to approve the Resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for approval a "Resolution Allocating from the Internal Service Fund to the Capital Projects Fund \$69.33 and Canceling Authorized Bonds." Mr. Wilson explained the Resolution was required as commercial paper had to be repaid in \$1,000 increments. Mr. Wilson made a motion to approve the Resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund \$1,400,000 and Canceling Authorized Bonds." Mr. Wilson explained that the Resolution was to cancel the bond authorization related to the West Tennessee Megasite project, as was recommended in a memo, dated November 15, 2018, from the Commissioner of Finance and Administration. Mr. Wilson made a motion to approve the Resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

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

Approved this 17th day of December 2018.

Respectfully submitted

A handwritten signature in blue ink that reads "Sandra Thompson". The signature is fluid and cursive, with the first name "Sandra" and last name "Thompson" clearly distinguishable.

Sandra Thompson
Assistant Secretary