

TENNESSEE STATE FUNDING BOARD
November 15, 2019

The Tennessee State Funding Board (the "Board") met on Friday, November 15, 2019, at 10:00 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 Stuart McWhorter, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a physical quorum present, Mr. Wilson called the meeting to order and recognized Commissioner McWhorter who presented a report on the October 2019 revenues.

Commissioner McWhorter reported that revenues for the month of October grew by approximately 8.0% over fiscal year 2018-2019 and were greater than the budgeted estimate by 4.6%. Commissioner McWhorter further reported that the General Fund grew by 6.1% from fiscal year 2018-2019 and exceeded the budgeted estimate by 2.0%. Commissioner McWhorter explained that the largest contributor to growth for the month were Sales & Use tax receipts which grew by 5.9% compared to fiscal year 2018-2019 and exceeded the budgeted estimate by 3.4%. Commissioner McWhorter stated that year to date for fiscal year 2019-2020 state revenue collections had grown by 8.6% over fiscal year 2018-2019 and exceeded the state's budgeted estimate by 6.0%. Commissioner McWhorter further stated that the General Fund closely mirrored the total state revenue collections with year to date growth for fiscal year 2019-2020 of approximately 8.0% over fiscal year 2018-2019 and 6.0% greater than the budgeted estimate.

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: Ms. Emily Mitchell 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, Dr. Joseph Newhard, and Dr. Fred Makara of East Tennessee State University; Commissioner David Gerregano, Ms. Christian Lotz, and Mr. Jaime Espinosa-Bowen of the Tennessee Department of Revenue; and Mr. Bojan Savic and Mr. Joe Wegenka of the legislative Fiscal Review Committee (the "FRC") of the State of Tennessee (the "State").

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 the State. When questioned if their forecasts predicted a recession in the forecast period, none of the presenters answered in the affirmative.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation (the "TELC") from Mr. Savic and Mr. Wegenka; and Ms. Rebecca Hargrove, President and CEO, and Mr. Andy Davis, Chief Financial Officer, from the TELC. Legislation in 2003 created the TELC (Tennessee Code Annotated Sections 4-51-101 et seq.). 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 (4) 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 2019-2020.

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 2023-2024. The lottery-funded scholarship programs as authorized through the 2019 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.

Mr. Wilson then deferred action on agenda item number five, a request to the Board for consideration for program funding for the fiscal year 2020-2021 from Net Lottery Proceeds, without objection.

After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene on November 26, 2019, at 8:30 a.m. in the Cordell Hull Building, 1st Floor, Senate Hearing Room I.

RECONVENED
November 26, 2019
8:30 a.m.

The Board reconvened on November 26, 2019 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 P. Wilson, Comptroller of the Treasury
The Honorable David Lillard, State Treasurer
Commissioner Stuart McWhorter, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a quorum present, Mr. Wilson called the meeting to order and asked for approval of the minutes from the October 30, 2019, meeting. Mr. Hargett made a motion to approve the minutes. Mr. McWhorter seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Ms. Sandra Thompson, Director of the Office of State and Local Finance and Assistant Secretary to the Board, to present for consideration and approval the staff recommendation of financial advisor for the Board. Ms. Thompson stated that, as presented at the prior two meetings of the Board, staff had submitted a Request for Proposal for Financial Advisor (the "RFP") to 14 financial advisor candidates. Ms. Thompson then stated that there was only one response to the RFP and it was from the current provider, Public Financial Management (PFM). Ms. Thompson further stated that staff to the Board met on Wednesday, November 20, 2019, to review and discuss the proposal from PFM, which included the technical and cost proposal. Ms. Thompson then stated that it was communicated and understood that, due to only the one proposal being received, there would be no in person interviews. Ms. Thompson further stated that staff concluded PFM was the current financial advisor, the only candidate to respond, the largest financial advisory firm in the country, had the greatest resources, and was the most qualified firm to serve issuers such as the State. Ms. Thompson then stated that staff further concluded it would make its recommendation for PFM to serve as financial advisor for the period January 1, 2020, to December 31, 2022. Mr. Wilson then asked if staff was satisfied with the performance of PFM. Ms. Thompson replied that staff was satisfied with their performance. Mr. Wilson then asked if the cost proposal from PFM seemed fair and reasonable for the services anticipated to be rendered. Ms. Thompson replied that, based on staff analysis, the cost proposal seemed reasonable. Mr. Wilson made a motion to approve the staff recommendation of financial advisor to the Board. Mr. Lillard seconded the motion, and it was approved unanimously.

Mr. Wilson then recognized Mr. Bob Rolfe, Commissioner of the 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 the State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting on October 30, 2019, the FastTrack balance was \$274,207,554.06. Mr. VanderMeer then reported that, since that time, \$1,572,729.00 in new grants or loans greater than \$750,000 were approved; and \$58,905.12 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$272,575,919.94 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$186,636,807.09, resulting in an uncommitted FastTrack balance of \$85,939,112.85, which represented 68.5% of the FastTrack

balance. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$11,420,000.00, and if these projects were approved, the uncommitted balance would be \$74,519,112.85 and the total commitments would be \$198,056,807.09, which represented 72.7% of the FastTrack balance. Mr. VanderMeer then clarified that the Report was as of November 18, 2019 and did not reflect the actions that were taken at the FastTrack meeting on November 25, 2019.

Mr. Wilson then asked if the remaining uncommitted FastTrack balance would be adequate funding for the remainder of the year. Mr. Rolfe responded that the remaining uncommitted balance was adequate and that ECD was aggressively tracking a couple of projects that might require ECD to come before the Board before the end of the calendar year. Mr. Hargett then inquired if the uncommitted Fast Track balance changed substantively after the FastTrack Meeting. Mr. VanderMeer responded that the balance was approximately \$69,000,000 at that time, roughly a \$6,000,000 reduction.

Mr. Rolfe then presented the following FastTrack projects:

- **Mitsubishi Motors North America, Inc – Franklin (Williamson County)**
FastTrack Job Economic Development Grant \$3,315,000
- **AutoZone, Inc. – Memphis (Shelby County)**
FastTrack Job Economic Development Grant \$2,275,000
- **Mueller Water Products, Inc. – Kimball (Marion County)**
FastTrack Job Economic Development Grant \$5,000,000
- **McKesson Corporation – Memphis (Shelby County)**
FastTrack Job Economic Development Grant \$ 830,000

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. Hargett then asked why, in ECD’s letter to the Board, was the Mitsubishi Motors North America, Inc. (“Mitsubishi”) project investment not termed a capital investment. Mr. Rolfe responded that part of the incentive would help offset the costs of eligible activities such as the lease payments, which is not included in the company’s capital investment. Ms. Jamie Stitt, Assistant Commissioner of Business and Workforce Development, ECD, replied that the pledge was an investment of \$4,000,000 from Mitsubishi and the remaining amount invested by the developer representing a total of \$18,250,000. Ms. Stitt then stated that the entire amount could be considered capital investment and that none of the investment amount presented would include operating costs. Mr. Hargett then asked if the McKesson Corporation project was a new facility from expansion or a new facility that was being moved from another location. Mr. Rolfe responded that it was an expansion of their existing footprint. Mr. Wilson made a motion to approve the FastTrack projects that were presented. Mr. McWhorter seconded the motion, and it was unanimously approved.

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 2020-2021, 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. Lillard made a motion to approve the request. Mr. Wilson 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 estimated revenues based on recurring growth rates in State taxes.

	<u>FY 2019-2020</u>		<u>FY 2020-2021</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Total State Taxes	3.10%	3.60%	2.40%	2.80%
General Fund	3.20%	3.75%	2.70%	3.10%

Mr. McWhorter then asked if it was correct that the economists did not factor in a recession in their revenue projections. Mr. Thurman responded that was correct. Mr. McWhorter then stated that while the economists did not factor the possibility of a recession into their revenue projections, it was part of the narrative of the revenue estimation presentations. Mr. McWhorter then asked if staff had factored the possibility into the staff recommendations of the recurring revenue estimates. Mr. Thurman replied that the possibility of recession or slow growth was much discussed among staff and factored into the revenue estimations. Mr. Lillard made a motion to approve the revenue estimates as recommended by staff. Mr. 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. 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 2019-2020</u>	<u>FY 2020-2021</u>	<u>FY 2021-2022</u>	<u>FY 2022-2023</u>	<u>FY 2023-2024</u>
Low	-0.50%	1.50%	1.50%	1.50%	1.50%
High	1.50%	2.50%	2.50%	2.50%	2.50%

Mr. Wilson then asked if the estimates were consistent with past performance. Mr. Thurman replied in the affirmative. Mr. Wilson made a motion to approve the lottery revenue estimates as recommended by staff. Mr. McWhorter 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 2019-2020. The amount currently projected for the fiscal year ranges from \$411 million to \$424 million. The Board acknowledged the letter.

Mr. Wilson then recognized Mr. Charly Lyons and Ms. Kelsey Dansby 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 2019/2020 Fiscal Year-End Budget" along with the "General Fund - Budget vs. Actual-July through October 2019" was provided to the Board members in their packet. Mr. Lyons then reported that the Board was also provided the "Capital Improvements Fund 2019/2020 Fiscal Year-End Budget" and the "Capital Improvement Fund - Budget vs. Actual - July through October

2019”, which deals with grants and infrastructure work performed. Mr. Lyons reported that the Authority currently had no debt and were positioned to fund a project or building for lease if needed. Mr. Lyons further reported that the Authority had issued \$488,000.00 in economic development grants and spent \$348,000 on building upgrades this year. Mr. Lyons further stated that the Authority had acquired over \$6 million in grants over the last 6 years. Mr. Lillard then asked why the fiscal overview for the capital improvements fund in the packet reflected positive net income while the balance sheet reported a net loss of \$319,868.36. Mr. Lyons replied that the net income (loss) reported on the balance sheet was as of October 31, 2019, and subsequently in November the TVA PILOT funds were received by the Authority. No action was necessary.

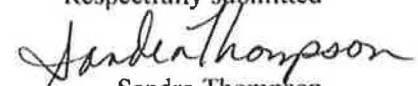
Mr. Wilson then recognized Mr. Tim McClure, Director of Cash Management of the State of Tennessee Treasury Department, who presented a report on the State Pooled Investment Fund (“SPIF”) for the fiscal year ended June 30, 2019. Mr. McClure reported that the average portfolio composition of the SPIF for fiscal year 2018-2019 was made up of U.S. Agencies (61.80%), U.S. Treasuries (11.11%), Collateralized CD’s (15.24%), Commercial Paper (5.59%) and Overnight Sweep (6.27%). Mr. McClure reported that the total average daily balances had grown from approximately \$8 billion in fiscal year 2014-2015 to slightly more than \$12 billion in fiscal year 2018-2019. Mr. McClure further reported on the 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 stated that no changes were recommended to the SPIF Investment Policy for the current fiscal year. Mr. McClure stated that as the SPIF would be managed through declining Fed Fund rates, very close attention would be paid to regulatory changes and other market conditions in determining the SPIF’s investment strategy for the year. Mr. McClure then stated that a 4-basis point administrative fee is charged to all participants to administer the program. Mr. McClure reported that stress tests conducted during fiscal year 2018-2019 revealed that, in each case, the results of the tests were successful. Mr. Wilson then asked if the state’s investment policy provided adequate liquidity. Mr. McClure responded in the affirmative. Mr. Wilson then asked how the 4-basis point administrative fee compared to other fund managers in the industry. Mr. McClure replied that it compared very favorable. Mr. McClure further replied that a typical money market fund similar to the SPIF would be charged and administrative fee of 15 to 25-basis points. No action was necessary.

Mr. McClure then presented a report on the Intermediate Term Investment Fund (“ITIF”) for the fiscal year ended June 30, 2019. Mr. McClure explained that the ITIF was launched on July 22, 2013, when the first participant invested \$200 million and as of June 30, 2019, there was one additional investment of \$11.76 million on April 1, 2019, and two participant withdrawals that totaled \$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 further clarified that it was not recommended that any operational funds be invested in the ITIF, partially explaining the low participation rate in the fund. Mr. McClure reported that for the period July 22, 2013, through June 30, 2019, the ITIF had a market value increase of 5.52% and during fiscal year 2018-2019 increased in value by 3.09%, net of expenses. Mr. McClure further stated that the administrative cost assessed to participants was 5-basis points. No action was necessary.

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

Approved this 13th day of December, 2019.

Respectfully submitted



Sandra Thompson
Assistant Secretary