

**TENNESSEE STATE FUNDING BOARD**  
**November 18, 2020**

The Tennessee State Funding Board (the "Board") met on Wednesday, November 18, 2020, at 9:00 a.m., in the Cordell Hull Building, 1<sup>st</sup> 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 Butch Eley, 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 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. Laurel Graefe 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 and Mr. Jeff Bjarke of the Tennessee Department of Revenue; and Mr. Bojan Savic and Mr. Joe Wegenka of the legislative Fiscal Review Committee (FRC) of the State of Tennessee (the "State").

The presenters forecasted economic growth and state tax revenue growth that reflect a recovery from the most recent economic recession experienced both in the state and the nation. The health and sustainability of the recovery depends on certain exogenous events, such as the ongoing novel coronavirus pandemic, political instability on the national level, additional federal stimulus funding, and any long-lasting effects thereof. Those exogenous events increase downside risk to both economic growth and state revenue growth.

Mr. Wilson then called for presentations regarding the Tennessee Education Lottery Corporation (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 2020-2021.

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 TSAC, who reported the projected expenditures in lottery scholarship and grant programs through fiscal year 2024-2025. The lottery-funded scholarship programs as authorized through the 2020 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, GIVE Act 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 recognized Mr. Charly Lyons and Ms. Kelsey Dansby from the Tennessee Central Economic Authority (the "Authority") (formerly Four Lakes 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 with all the county executives serving as members of the Authority's board. Mr. Lyons reported that the "General Fund 2020/2021 Fiscal Year-End Budget" along with the "General Fund - Budget vs. Actual-July through October 2020" was provided to the Board members in their packet. Mr. Lyons then reported that the Board was also provided the "Capital Improvements Fund 2020/2021 Fiscal Year-End Budget" and the "Capital Improvement Fund - Budget vs. Actual - July through October 2020", which reports on grants and infrastructure work performed. Mr. Lyons reported that the Authority had been financially healthy for the prior eight years with consecutive years being under budget and exceeding projected revenues, allowing the Authority to build a reserve. Mr. Lyons further stated that the Authority had been able to work with multiple agencies to identify approximately 200 jobs in the area. Mr. Lyons then stated that the Authority strongly encouraged the companies they work with to reach out to the area high schools to inform the students of the jobs provided and the necessary skills needed, in order to address workforce issues. Mr. Hargett then asked at what point during the budget year would the budgeted administrative services fee be received. Mr. Lyons responded that the TVA PILOT funding was normally received in the Capital Fund in November or December and then subsequently transferred to the General Fund. 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 2021-2022, pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B). 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.

After requesting other business and hearing none, Mr. Wilson recessed the meeting and stated that the Board would reconvene on November 24, 2020, at 11:30 a.m. in the Cordell Hull Building, 1<sup>st</sup> Floor, Senate Hearing Room I.

**RECONVENED**  
**November 24, 2020**  
**11:30 a.m.**

The Board reconvened on November 24, 2020 at 11:30 a.m., in the Cordell Hull Building, 1<sup>st</sup> 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 Butch Eley, 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 September 21, 2020, meeting. Mr. Wilson made a motion to approve the minutes. Mr. Lillard seconded the motion, and it was unanimously approved.

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 Board meeting on September 21, 2020, the FastTrack balance was \$278,968,893.01. Mr. VanderMeer then reported that, since that time, \$1,334,540.00 in funds had been deobligated; \$3,867,520.70 was transferred from FastTrack to close the TNInvestco allotment code for fiscal year-end 2020; \$15,193,500.00 in new grants or loans were approved; and \$133,980.04 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$261,108,432.27 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$195,526,653.74, resulting in an uncommitted FastTrack balance of \$65,581,778.53. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$39,125,000.00, and if these projects were approved, the remaining uncommitted balance would be \$26,456,778.53 and the total commitments would be \$234,651,653.74, which represented 89.9% of the FastTrack balance.

Mr. Rolfe then presented the following FastTrack projects:

- **Babynov USA LLC – Red Boiling Springs (Macon County)**  
FastTrack Economic Development Grant \$ 2,000,000
- **Moldex-Metric Inc. – Lebanon (Wilson County)**  
FastTrack Job Training Assistance Grant \$ 2,125,000
- **General Motors LLC – Spring Hill (Maury County)**  
FastTrack Job Training Assistance Grant \$35,000,000

The Board received in their packets the award letters and FastTrack checklists signed by Mr. Rolfe, and the incentive acceptance forms. Mr. Wilson inquired if the information provided in the ECD packets was true and correct and Mr. Rolfe responded affirmatively. Mr. Wilson then inquired if the companies that signed the incentive acceptance forms fully understood the agreements and Mr. Rolfe responded affirmatively.

Mr. Wilson made a motion to approve the FastTrack projects that were presented. Mr. Eley 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><b>FY 2020–2021</b></u>		<u><b>FY 2021-2022</b></u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Total State Taxes	1.00%	1.20%	2.50%	3.00%
General Fund	1.50%	1.75%	2.70%	3.20%

Mr. Lillard made a motion to approve the revenue estimates as recommended by staff. Mr. Hargett 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><b>FY 2020-2021</b></u>	<u><b>FY 2021-2022</b></u>	<u><b>FY 2022-2023</b></u>	<u><b>FY 2023-2024</b></u>	<u><b>FY 2024-2025</b></u>
Low	3.75%	2.25%	1.75%	1.75%	1.75%
High	6.25%	3.25%	2.25%	2.25%	2.25%

Mr. Hargett made a motion to approve the lottery revenue estimates as recommended by staff. Mr. Wilson 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 2020-2021. The amount currently projected for the fiscal year ranges from \$437 million to \$450 million. The Board acknowledged the letter.

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 stated that the Board had received a financial report in their packet for the period July 1, 2020, through October 31, 2020. Ms. Brown reported that the TSVHB had a year-to-date loss of \$2.9 million, greater than the budgeted loss of approximately \$35,000. Ms. Brown stated that the loss was due to the drop in the occupancy rate from the COVID-19 pandemic. Ms. Brown further stated that the occupancy rate, for the month of October, at two TSVH facilities exceeded the state occupancy rate of 67% and the occupancy rate at the Murfreesboro facility was below the average due to the impact of the pandemic on community admission availability and restrictions. Ms. Brown then stated that the TSVHB had received \$805,600 from the CARES Act during the first quarter of fiscal year 2021, and a total of \$3.5 million to date from the fund. Ms. Brown further stated that an application for the third phase of the CARES Act had been submitted. Ms. Brown then reported that the total cash balance in the Local Government Investment Pool (LGIP) was \$18,879,192 as of October 31, 2020. Ms. Brown then reported that the 180-bed Cleveland-Bradley County facility, currently under construction, had an anticipated completion date of fall or winter 2021. Ms. Brown further reported that there were three renovation projects at the facilities whose 35% match were to be funded from the Repair & Replacement Fund. Ms. Brown then reported that the TSVHB had one audit finding pertaining to the timely preparation of financial statements for the fiscal year ended June 30, 2019.

and that management remains committed to continued improvements in financial reporting, internal controls and fiscal responsibility.

Mr. Wilson then inquired about the plans of the TSVHB to deal with the current operating deficit. Ms. Brown responded that there had been a reduction in work force with the expense reduction effects projected to be seen in November, and that starting the next month, the TSVHB would be looking at additional possible layoffs or furloughs. Ms. Brown further responded that the TSVHB had also investigated expense cutting measures. Ms. Brown then stated that the response to the COVID-19 pandemic had led to additional incurred costs, particularly for personal protective equipment. Mr. Harries then responded that COVID-19 testing had also led to additional expenses. Mr. Harries then stated that the reason for the deficit was primarily due to revenue loss not from an increase in expenses. Mr. Harries then stated that nationally, hospital discharges to skilled nursing facilities had dropped dramatically but was starting to increase again in November resulting in 24 new admissions to their facilities. Mr. Harries then stated that if the TSVHB can get its census occupancy level back up to par, they should see a significant gain. Mr. Wilson then asked if the drop in census was happening across the country. Mr. Harries responded in the affirmative and stated that the latest data from a September survey from the Tennessee Healthcare Association found nursing homes were down to 66% occupancy. Mr. Hargett then asked why the October occupancy rate for the Murfreesboro facility was only 50%. Mr. Harries responded that unfortunately, the Murfreesboro facility had a COVID-19 outbreak leading to the passing of 20 residents. No action was necessary.

Mr. Wilson then recognized Mr. Tim McClure, Director of Cash Management and Assistant Chief Investment Officer 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, 2020. Mr. McClure stated the SPIF operated in compliance with GASB Statement 79. Mr. McClure then reported that the average portfolio composition of the SPIF for fiscal year 2019-2020 was made up of U.S. Agencies (68.74%), U.S. Treasuries (10.80%), Collateralized CD's (6.95%), Commercial Paper (5.00%) and Overnight Sweep (8.51%). Mr. McClure reported that the total average daily balances were slightly over \$14 billion for fiscal year 2019-2020. 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 by staff to the SPIF Investment Policy for the current fiscal year. Mr. McClure reported that the Fed Funds rate ranged from 2.25% to 2.50% in the beginning of fiscal 2019-2020 but had decreased gradually throughout the year to a level of rates that ranged from 0.00% to 0.25%. Mr. McClure stated that this rate was obviously very low and would have an impact on the investment earnings of the SPIF. Mr. McClure then stated that the SPIF remained a safe investment for state funds and monies invested by local government officials. Mr. McClure then stated that Treasury charges the participants a 4-basis point administrative fee to administer the program is charged to all participants. Mr. McClure reported that the results of stress tests conducted during fiscal year 2019-2020, were successful. No action was necessary.

Mr. McClure then presented a report on the Intermediate Term Investment Fund ("ITIF") for the fiscal year ended June 30, 2020. Mr. McClure explained that the ITIF was established by the Board to provide an alternative for any participant, eligible to participate in the LGIP, seeking a longer duration fund that does not provide liquidity but might provide an enhanced return from investing further out on the yield curve. Mr. McClure explained that the ITIF was launched on July 22, 2013, when the first participant invested \$200 million, and as of June 30, 2020, there was one additional investment of \$11.76 million and three participant withdrawals that totaled \$204.44 million since inception. Mr. McClure further stated that there was currently only one participant in the ITIF. Mr. McClure reported that the average composition of the portfolio for fiscal year 2019-2020 was 79.17% US agencies and 20.83% idle cash in the SPIF. Mr. McClure further explained that there were several calls of the securities held in the portfolio during the fiscal year leading to the appearance of a large balance being maintained in the SPIF, while it was actually due to market timing in order to take advantage of interest rate changes. Mr. McClure reported that during fiscal



year 2019-2020 the fund increased in value 1.98% net of expenses compared to returns for the SPIF of 1.56%, the Vanguard Short Term Federal Fund ("VSGBX") of 4.78%, and the Barclays US Treasury Bond Fund Index ("Index") of 4.05% during the same period. Mr. McClure explained that the VSGBX and Index had longer terms than the ITIF producing the greater returns for the year. Mr. McClure reported that for the period July 22, 2013, through June 30, 2020, the ITIF had a market value increase of 7.61%. Mr. McClure stated that there were no recommended changes by staff to the ITIF Investment Policy and that the investment plan would be to continue to look for opportunities to maximize returns by taking advantage of opportunities that might occur farther out on the yield curve. Mr. McClure further stated that the administrative cost assessed to participants was 5-basis points. Mr. Wilson then commented that in the future the Board would need to evaluate if there were enough participants to justify the existence of the fund. 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 \$252,950 and Canceling Authorized Bonds". Mr. Wilson stated that the funds were no longer needed to fund debt service. Mr. Wilson made a motion to approve the resolution. Mr. Eley seconded the motion, and it was unanimously approved.

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

Approved this 14<sup>th</sup> day of December 2020.

Respectfully submitted

A handwritten signature in blue ink that reads "Sandra Thompson". The signature is fluid and cursive, with the first name "Sandra" being more prominent than the last name "Thompson".

Sandra Thompson  
Assistant Secretary