TENNESSEE STATE FUNDING BOARD
November 6, 2023

The Tennessee State Funding Board (the "Board") met on Monday, November 6, 2023, at 1:30 p.m., CT in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable David Lillard, State Treasurer
Commissioner Jim Bryson, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a physical quorum present, Comptroller Mumpower called the meeting to order. Comptroller Mumpower, in accordance with Public Chapter 300 and Board guidelines, asked Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Division of State Government Finance ("SGF"), if any requests for public comment had been received. Ms. Thompson responded that no requests had been received.

Comptroller Mumpower then stated that the first item on the agenda was consideration and approval of the minutes from the meeting held on October 9, 2023. Commissioner Bryson made a motion to approve the minutes, and Treasurer Lillard seconded the motion. The minutes were unanimously approved.

Comptroller Mumpower then recognized Mr. Stuart McWhorter, Commissioner of the Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Ms. Jessica Johnson, Assistant Commissioner of Administration and Operations, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Ms. Johnson reported that, as of the date of the October 9, 2023, Board meeting, the FastTrack balance was $678,118,019.36. Since that time, $12,400.00 in new appropriations had been added, comprised of a global adjustment for technology and computer related expenses; $3,919,916.56 in funds had been deobligated; $992,200.00 in new grants or loans less than $750,000.00 had been approved; and $1,263,936.95 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of $679,794,198.97 as of the date of the Report. Ms. Johnson reported that total commitments had been made in the amount of $558,125,094.30, resulting in an uncommitted FastTrack balance of $121,669,104.67. Ms. Johnson reported that the amount of proposed grants for projects to be considered at this meeting totaled $8,700,000.00, and if these projects were approved, the uncommitted balance would be $112,969,104.67, for a total committed balance of $566,825,094.30, which represented 83.4% of the FastTrack balance.

Commissioner McWhorter then presented the following FastTrack projects:

- **Malibu Boats, LLC and Cobalt Boats, LLC – Lenoir City (Roane County)**
  FastTrack Economic Development Grant $ 7,700,000.00

- **August Bioservices, LLC – Nashville (Davidson County)**
  FastTrack Economic Development Grant $ 1,000,000.00

Secretary Hargett made a motion to approve the projects, and Treasurer Lillard seconded the motion. The Board member packets included letters and FastTrack checklists signed by Commissioner McWhorter, and incentive acceptance forms signed by company representatives. Comptroller Mumpower inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Commissioner McWhorter responded affirmatively. Comptroller Mumpower then inquired if checklists had been completed for each project, and Commissioner McWhorter responded affirmatively. Comptroller Mumpower then inquired if all the projects included accountability agreements which would provide protections for the state in the event the entity could not fulfill the agreement, and Commissioner McWhorter responded affirmatively. Hearing no other discussion, Comptroller Mumpower took the vote, and the motion was unanimously approved.

Comptroller Mumpower then, without objection, took up item number eight on the agenda and recognized Ms. Thompson to present a Declaration of Trust for Other Post Employment Benefits ("OPEB trust") for West Knox Utility District for consideration and approval. Ms. Thompson stated that SGF was presented withan OPEB trust for the West Knox Utility District, which was subsequently submitted to the Attorney General's Office for review. Ms. Thompson then stated that both offices had reviewed the OPEB trust for the criteria that are required to be included under state law. Ms. Thompson further stated that the OPEB trust had met all the criteria, and that staff recommended approval. Secretary Hargett made a motion to approve the OPEB trust. Treasure Lillard seconded the motion, and it was unanimously approved.

The Board then heard testimony and reports regarding the economy from the following presenters: Ms. Laurel Graefe of the Federal Reserve Bank of Atlanta; Dr. Don Bruce 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"). 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 provided by various economists as well as persons acquainted with the Tennessee revenue system.

The presenters forecasted economic growth and state tax revenue growth that reflect little to no growth in both the current fiscal year and into the next fiscal year. Factors cited to support the little to no growth in the current and next years included Federal Reserve action on interest rates, continued aftereffects from inflationary price increases, lagging labor force participation rates in Tennessee, and lessened consumer demand as excess savings were depleted. Those factors increased downside risk to both economic and state tax revenue growth.

Comptroller Mumpower then called for presentations regarding the Tennessee Education Lottery Corporation (TELC) from Mr. Savic and Mr. Wegenka; and Ms. Rebecca Paul, 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 next four (4) succeeding fiscal years.

The 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 presenters also summarized recent changes for TELC and reported on year-to-date revenue and expenses for fiscal year 2023-2024.

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, Senior Director for Grants and Scholarship Programs of TSAC, who reported the projected expenditures in lottery scholarship and grant programs through fiscal year 2027-2028. The lottery-funded scholarship programs as authorized through the 2023 session of the General Assembly included the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, HOPE Scholarship for Non-traditional Students, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, TCAT Reconnect Grant, the Tennessee Middle College Scholarship, and Tennessee Reconnect Grant.

Comptroller Mumpower then recognized Ms. Mary Beth Thomas, Executive Director of the Tennessee Sports Wagering Council (the "SWC"), for a presentation on sports wagering revenue estimates. Ms. Thomas' presentation discussed mobile sports wagering, licensed sports books in the state, new player accounts, total wager estimates, and sports betting revenue estimates for the State. Ms. Thomas noted the following:

- Sports wagering was legalized by the Tennessee General Assembly in 2019 and was initially regulated by the TELC. The SWC was created by the legislature in 2021 and assumed regulatory authority in January 2022.
- The SWC is responsible for regulating online sports wagering and fantasy sports wagering in the state, including annual vetting/licensing of sportsbooks and fantasy sports operators, and the registering of vendors that provide services to the online sport books. The SWC is also responsible for compliance functions throughout the year.
- There were currently 13 licensed online sportsbooks operating in the state that had received close to ten billion dollars in wagers as of the end of September 2023.
- Sports betting is legal in some capacity in 35 U.S. states and the District of Columbia. Of those, 25 states and the District of Columbia have legal mobile betting. Only two states, Tennessee and Wyoming, have only mobile sports betting.
- The SWC found it difficult to compare how sports wagering taxes are generated and collected from state to state due to the vast differences in betting structures across the different states. Due to this, the SWC decided not to present on revenue trends from elsewhere or on a national level.
- The SWC discussed the growth of sports betting noting that the number of licensed sportsbooks was seven at the end of fiscal year 2021, twelve at the end of fiscal year 2022, twelve at the end of fiscal year 2023, and was estimated to stay at an average of twelve licensed sportsbooks annually for the near future.
- Newly created player accounts with licensed sportsbooks numbered approximately 443,329 in 2021, 656,147 in 2022, and 656,451 through October 26, 2023, equaling an annualized number of 787,741 new accounts created.
- The SWC is responsible for collecting privilege taxes from the sportsbooks each month and in doing so receives wagering data on a daily basis that is utilized for compliance purposes.
- The total wagers, excluding subtractions for winning payouts, brought in by sportsbooks increased by 145% between FY2021 and FY2022, by 14% between FY2022 and FY2023, and is estimated to increase by 8% this fiscal year over last fiscal year. The SWC assumed a conservative growth rate of 3-5% in total wagers moving forward.

- The SWC was starting to see a decrease in border activity with residents of bordering states traveling into Tennessee to place wagers as border states started legalizing sports betting. Kentucky legalized sports betting the prior month and North Carolina had legalized online sports betting that would become operational in 2024. The SWC used a conservative growth estimate in part due to the loss of border activity in the future.
- In the last legislative session, the legislature adopted a privilege tax on handles of 1.85%. Prior to the legislation going into effect in July 2023, the state taxed net gaming revenue at 20% and required sportsbooks to generate 10% net gaming revenue through a hold or be subject to a $25,000 fine or suspended. In the calendar years of 2021 and 2022 only one operator met the hold requirement and multiple operators had a negative net gaming revenue resulting in no taxable revenue. The hold was removed with the legislation as accounting data indicated that it was creating less favorable odds and bet types for players.
- Total Privilege Tax collections amounted to $24,502,000 in FY2021, $46,328,006 in FY2022, $82,139,820 in FY2023, and the SWC estimated collections in the amount of $78,791,221 for FY2024, $82,717,610 in FY2025, and $86,853,491 for FY2026.
- The privilege tax collections were distributed to the Lottery for Education account (80%), general fund (15%) for counties and local governments, and to the Department of Mental Health (5%) for responsible gaming initiatives. The SWC operations funding did not come from the privilege tax but from licensure fees.

Comptroller Mumpower then inquired about the SWC's player base compared to the player base for the lottery. Ms. Thomas responded that the player base was different. Ms. Thomas then stated that sports betting involved more skill than instant games or lottery games, which are pure games of chance. Ms. Thomas further stated that studies had shown that the SWC's demographic was mostly males aged twenty-four to thirty-five with a many being professionals and college graduates. Comptroller Mumpower then asked if the SWC thought that their primary users were more focused, consistent regular players as opposed to more one-off users. Ms. Thomas responded in the affirmative.

Secretary Hargett then asked if there was any data on how many unique online sportsbooks users there were in the state that comprised the approximately two million accounts within the state across the multiple sportsbooks. Ms. Thomas responded that the two million accounts were determined by the geolocation service by device-based tracking as opposed to username tracking which should eliminate duplication across the sportsbooks. Ms. Thomas further responded that there could be crossover with users who were utilizing multiple devices, but most people were just using their phones. Ms. Thomas then stated that the two million figure represented the number of unique devices used for sports wagering in the state. Secretary Hargett then asked if Ms. Thomas had any information on the toll-free REDLINE number that is advertised for gambling help. Ms. Thomas responded that the information for the REDLINE and the 1-800 GAMBLER national number tracked data, and that she would get that information for the Board.

Commissioner Bryson then confirmed that the two million unique devices had to be located in Tennessee. Commissioner Bryson then commented that he got the sense that sports wagering was growing rapidly but the SWC projections didn't show rapid growth. Secretary Hargett then asked if Ms. Thomas had heard of any potential legislation or those in the industry that were pursuing future legislation to allow physical betting locations. Ms. Thomas responded that she had not heard of any possible legislation. Ms. Thomas further responded that mobile betting was more accessible than betting in person. No further action was necessary.

Comptroller Mumpower then presented a request from the Department of Education for $23,000 from Net Lottery Proceeds for Lottery Scholarship Day for fiscal year 2024-2025, 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 acknowledged the request from the Department of Education. No further action was necessary.

After requesting other business and hearing none, Comptroller Mumpower called to recess the meeting and stated that the Board would reconvene on November 29, 2023, at 2:00 p.m., CT in the Cordell Hull Building, 2nd Floor, Volunteer Conference Center.

RECONVENED
November 29, 2023
2:00 p.m.

The Board reconvened on Wednesday, November 29, 2023, at 2:00 p.m., CT in the Cordell Hull Building, 2nd Floor, Volunteer Conference Center, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable David Lillard, State Treasurer
Commissioner Jim Bryson, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a quorum present, Comptroller Mumpower called the meeting to order. Comptroller Mumpower, in accordance with Public Chapter 300 and Board guidelines, asked Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Division of State Government Finance ("SGF"), if any requests for public comment had been received. Ms. Thompson responded that no requests had been received.

Comptroller Mumpower 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.

	FY 2023–2024		FY 2024-2025	
	Low	High	Low	High
Total State Taxes	-0.69%	-0.19%	0.13%	1.13%
General Fund	-0.50%	0.00%	-0.50%	0.50%

Comptroller Mumpower then asked for any additional insights from the staff discussions of the revenue growth rate ranges. Mr. Thurman responded that it was striking for economists and forecasters to think of this as a negative growth period, and staff took that to heart while determining their recommendation. Mr. Thurman also stated that franchise and excise taxes were currently a challenge with significant refunds occurring as opposed to letting those dollars carry forward. Mr. Thurman then stated that it appeared from the economist projections that revenue growth rates were starting to normalize. Comptroller Mumpower made a motion to approve the state revenue estimates as recommended by staff. Commissioner Bryson seconded the motion.

Comptroller Mumpower then stated that he believed the state economy was very strong. Comptroller Mumpower further stated that the state population increased by 83,000 last year and the state was experiencing record low unemployment. Comptroller Mumpower then observed that even with the growth projections, collections were still as much as 40% greater than prior to the pandemic. Comptroller Mumpower then stated that he thought it was prudent that there be solid conservative growth estimates given the posture of returning to normal growth conditions. Comptroller Mumpower then commended Governor Bill Lee, Commissioner Bryson, Mr. Thurman, and the members of the Tennessee General Assembly for preparing for the current monetary situation by utilizing recurring dollars for non-recurring expenses over the last few years. Observing no further comments, Comptroller Mumpower took the vote, and the motion was unanimously approved.

Mr. Thurman then presented the staff recommendations of the estimates of the growth rate ranges for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for various statutory purposes.

	FY 2023-2024	**FY 2024-2025**	**FY 2025-2026**	**FY 2026-2027**	**FY 2027-2028**
Low	-0.50%	0.00%	1.00%	1.00%	1.00%
High	0.00%	1.00%	2.00%	2.00%	2.00%

Comptroller Mumpower made a motion to approve the lottery revenue estimates as recommended by staff and Mr. Lillard seconded the motion. Comptroller Mumpower then asked for any additional insights from the staff discussions of the net lottery proceeds growth rate ranges. Mr. Thurman noted that the low negative growth rate estimates for fiscal year 2023-2024 was based on the presenters' discussions of lower lottery proceeds due to the large Powerball jackpots a year ago driving greater collections than this fiscal year. Mr. Thurman then stated that the growth estimates for years further out were difficult to estimate. Mr. Thurman then noted the impact that sports wagering would have on lottery collections and stated that staff wanted to be conservative on growth estimates until more data from those collections had been gathered. Comptroller Mumpower took the vote, and the motion 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. Comptroller Mumpower 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 2023-2024. The amount currently projected for the fiscal year ranges from \$480 million to \$488 million. The Board acknowledged the letter. No further action was necessary.

Comptroller Mumpower then recognized Ms. Thompson to present for consideration for approval an amendment to the financial advisor contract with PFM Financial Advisors, LLC ("PFM"). Ms. Thompson stated that a final version of the amendment ("Amendment Two") to the financial advisory contract with PFM was provided to the Board members in their packets. Ms. Thompson then stated that the original financial advisor services contract was for three years and allowed for two one-year extensions. Ms. Thompson further stated that the first one-year extension will expire at the end of the current year and that Amendment Two would extend the contract one additional year, from January 1, 2024, through December 31, 2024. Ms. Thompson then stated that staff had a good relationship with PFM and the services provided by them had been exemplary. Ms. Thompson then stated that it was staff's recommendation to the Board to approve the amendment to extend the term of the contract for one year. Mr. Bryson made a motion to approve the amendment. Mr. Hargett seconded the motion, and it was unanimously approved.

Comptroller Mumpower then recognized Mr. Charly Lyons, President and Chief Executive Officer of the Tennessee Central Economic Authority (the "Authority") and Ms. Kelsey Dansby, Executive Administrator from the Authority, and Ms. Amanda Sexton, Project Manager for the Authority, who presented a report on the Authority operations over the past year. The report was provided to the Board members in their meeting packets. 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 then stated that he had been with the Authority for eleven years and during that time the Authority had been conservative in budgeting, leading to revenue exceeding budgeted amounts and expenses being less than budgeted in each year. Mr. Lyons further stated that the Authority aimed to build up a reserve for their operations. Commissioner Bryson commented that the Authority had a significant capital improvements fund and asked the Authority about future plans in that area. Mr. Lyons replied that the Authority owns a four-hundred fifty (450) acre industrial park, and the primary use of the funds was for infrastructure in that area. Mr. Lyons further replied that the Authority is responsible for roads, waterlines, and sewer lines within the park. Mr. Lyons stated some old buildings had also been renovated on the site. Mr. Lyons then stated that the Authority had a capital improvements budget for the park, a grants budget for the five counties, and a general budget for operational expenses of the office. The Board acknowledged the report. No further action was necessary.

Comptroller Mumpower 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. The Board had received a financial report in their packet for the period July 1, 2023, through October 31, 2023. Mr. Harries reported that from the beginning of fiscal year 2024 through September 30, 2023, the TSVHB had a year-to-date loss of approximately $1.200,000 . Mr. Harries further reported that the budgeted loss for the period was $775,ooo and that the primary reason for the loss was start-up costs and delays in opening the new Cleveland facility. Mr. Harries then stated that the Cleveland facility recently received Centers for Medicare and Medicaid Services ("CMS") certification and would now be able to bill Medicare and Medicaid. Mr. Harries further stated that the Cleveland facility currently housed eight residents and was working toward admitting twenty residents. Mr. Harries then stated that the Cleveland facility would receive Veteran Affairs ("VA") recognition in January 2024 and be able to start the acceptance of VA funds. Mr. Harries then reported that the TSVHB was dealing with inflationary costs especially in terms of agency nurses and construction costs. Mr. Harries further reported that eliminating agency nursing costs would be immense in changing TSVHBs profit stance as, depending on the position, the costs were one and half to two and a half the costs of internal employees. Mr. Harries noted that agency nurses were still being utilized in three facilities.

Mr. Harries then reported on the average daily occupancy rates and construction status of the TSVHB facilities. Mr. Harries noted that all the facilities, except Cleveland, had occupancy rates exceeding the state norm with 70% and greater occupancy rates. Mr. Harries further noted that the Clarksville facility was at 100% occupancy, and TSVHB might need to look at facility expansion in the future due to the demand in that area. Mr. Harries then reported that Arlington-Shelby County facility was under construction with a substantial completion date of winter of 2025 due to construction delays. Mr. Harries also noted that a Sullivan County facility was in the early preliminary planning stages and a site had not yet been selected or state and local matching funds received.

Mr. Harries then reported on the findings of the financial audit, performance audit, and regulatory compliance for the TSVHB facilities. Mr. Harries noted that the financial audit covering fiscal year 2022 had a single finding that had already been addressed. Mr. Harries stated that on November 29, 2022, the performance audit was issued with four findings and that processes were now in place to ensure that there are no repeat findings. Mr. Harries then reported on the CMS star ratings for the facilities noting that the Knoxville home was rated at 5-stars and the Murfreesboro, Clarksville, and Humboldt homes rated at 3-stars. Mr. Harries further noted that the Humboldt CMS rating dropped from a 4-star level to a 3-star level due to staffing reductions made for financial efficiency. Mr. Harries stated that it was anticipated that the home would be getting the star back soon.

Commissioner Bryson then asked how the Cleveland facility coming fully online would affect TSVHB's financial position considering they were currently at a $1.2,000,000 loss and whether the TSVHB was having to utilize reserves. Mr. Harries responded in the affirmative that reserves were being utilized but the balance of reserves was back to pre-COVID levels. Ms. Brown then responded that $1,000,000 had been moved to the reserve for expenses related to the Cleveland home prior to the pandemic, of which $650,000 had been used. Ms. Brown continued that a request would be made for the remaining funds held for Cleveland in the reserve and currently the funds being utilized were operating funds. Ms. Brown then stated that part of the process of building a home was the feasibility study so the first year of operations of the Cleveland facility would be at a break-even point. Ms. Brown further stated that the problem had been construction delays that had pushed the opening of the facility back from the initial 2021-time frame. Ms. Brown further stated that she did not anticipate having to use more than the designated funds for the Cleveland home. Ms. Brown then stated that once the VA survey recognition was obtained by the Cleveland facility, it would run at the break-even point. Commissioner Bryson then asked how the TSVHB would get back to break-even for the entire system. Mr. Harries responded that the two key targets were the census and getting agency costs under control. Comptroller Mumpower then asked why the Cleveland and Clarksville facilities were running a similar deficit even though the Clarksville facility had a much greater number of residents. Mr. Harries responded that the VA code at the time of construction of the Clarksville facility required the homes to be constructed with 12 beds as opposed to the Cleveland facilities homes with 18beds. Mr. Harries further responded that the staffing requirements were the same for each home whether 12 or 18 beds, which resulted in decreased labor costs with the 18 bed homes and makes them more profitable. Mr. Harries then stated that the TSVHB, with increased reimbursement rates and monitoring expenses tightly, may be able to get the Clarksville facility to break-even or be profitable. The Board acknowledged the report. No further action was necessary.

Comptroller Mumpower then recognized Mr. Markus Klar, Director of Fixed Income from the Tennessee Treasury Department ("Treasury"), who presented a report on the State Pooled Investment Fund ("SPIF") and Intermediate Term Investment Fund ("ITIF") for the fiscal year ended June 30, 2023.

Mr. Klar made initial comments on the current market and Federal Reserve Board (the "Fed") policy. Mr. Klar noted the following:

- The last two years had seen the greatest interest rate hike cycle in the previous four decades.
- Fiscal year 2023 started with a Fed Funds Rate of 1.75% and ended with a rate of 5.25%, an increase of 350 basis points during the year. The 5.25% rate matched the highest rate seen since just prior to the great recession.
- Three weeks following the end of fiscal year 2023 the Fed hiked the Fed Funds Rate another 25 basis points to 5.50%.
- The economy didn't react as many market participants had anticipated. The unemployment rate began and ended at 3.60% for fiscal year 2023.
- The Average Gross Domestic Product (GDP) growth was 2.40% for fiscal year 2023.
- Consumer spending was very resilient throughout the fiscal year and housing prices also did not show a meaningful reaction to increased mortgage rates, but sales did slow.
- The Consumer Price Index (CPI) began fiscal year 2023 around 9% and finished the fiscal year around 3%. The Fed target was approximately 2%.
- There were multiple bank failures in March of 2023, but the Fed instituted an emergency credit program for the banks to solve the issue.

- Consumer spending finally started to slow over the past few months following the end of fiscal year 2023 indicating that the market was starting to react when it had not during the fiscal year.

Mr. Klar then presented a report on the annual investment activity of the SPIF for fiscal year 2023. Mr. Klar noted the following:

- The return on the SPIF for fiscal year 2023 was 3.74% after expenses, which was 3 basis points greater than the SPIF benchmark (30-day U.S. Treasury Bill). The return was substantially higher than the 21 basis point increase during fiscal year 2022.
- The SPIF maintained a monthly average fund size of $31,300,000 of invested assets for fiscal year 2023. The SPIF can be subdivided into three separate components, the general fund, the Local Government Investment Pool ("LGIP"), and other state funds that are restricted. The general fund increased in size from approximately $20,000,000,000 to approximately $24,000,000,000 during the fiscal year, for a growth of approximately 20%. The LGIP increased from approximately $5,900,000,000 to $6,600,000,000, for a growth of approximately 12%, and the restricted funds increased from approximately $3,250,000,000 to approximately $4,500,000,000, for a growth of approximately 38%.
- The portfolio composition of the SPIF changed over the course of the fiscal year moving from approximately 75% allocation to U.S. Agencies and Treasuries to approximately 86% allocation to the two components. The growth in the allocation to those components came at the expense of investments in commercial paper. The rising interest rates during the fiscal year led to excess demand for short-term instruments while the market was readjusting, driving down yield premiums on commercial paper. In addition, Treasury also reduced the amount of commercial paper in the portfolio due to multiple issuers on Treasury's approved list not being in the market for commercial paper.
- The portfolio composition of collateralized CDs increased from 0.69% to 1.70% as banks have started to look for funding from the state again. The allocation was still low but trending upward.
- The weighted average maturity (the "WAM") of the SPIF had a range of around 40 to 50 days throughout fiscal year 2023 with an average of approximately 46 days, below the maximum of 60 days as set by the Government Accounting Standards Board ("GASB") Statement 79.
- The weighted average life (the "WAL") of the SPIF for fiscal year 2023 was very similar to the WAM. The only difference in the calculation of the WAL from the WAM is the treatment of floating rate securities. The WAM considers the floating rate security's term to be the reset time for the interest rate while the measure of WAL considers the security's term to be the time until the instrument matures, and you receive your money back. The SPIF's portfolio had a low allocation in floating rate securities resulting in the curves for WAM and WAL looking very similar for fiscal year 2023.
- There were two measures of the liquidity of the SPIF, the daily liquidity and the weekly liquidity. The daily liquidity was around 30% during much of fiscal year 2023 with a spike starting around March of 2023 and daily liquidity ending the fiscal year at approximately 70%. Following the bank failures in March of 2023, the Federal Home Loan Banks (the "FHLBs") entered the market, raising a significant amount of funds to ensure enough liquidity was available. The FHLBs then held the funds after the Fed's actions to remedy the situation, reducing their needs to raise funds in the following months. Due to this, the spread on FHLB commercial paper was negative and unattractive for Treasury investment. As an alternative, Treasury invested more in U.S. Treasury Bills which are considered to be daily liquidity under GASB Statement 79 regardless of the term. The weekly liquidity was at least 60% for much of fiscal year 2023. The minimum standards for daily liquidity and weekly liquidity, as determined by GASB Statement 79 are 10% and 30% respectively.

Mr. Klar then presented a report on the annual investment activity of the ITIF for fiscal year 2023. Mr. Klar noted the following:

- The ITIF was intended to be a longer-term investment alternative to the SPIF for funds.
- The ITIF covered the same asset sectors of the market as the SPIF with the only difference being the ability to invest further out on the yield curve, up to three years in duration.
- Due to the a longer investment duration, the ITIF struggled with investment return more than the SPIF during fiscal year 2023 with the rising interest rate environment.
- The approximate average duration of the fund was about 2.5 years for the ITIF or the fiscal year.
- The return on the ITIF for fiscal year 2023 was two basis points, considerably less than the SPIF due to the investment duration but outperforming a suitable benchmark, the Vanguard Short-term Federal Portfolio, by 95.5 basis points.
- The asset allocation for the ITIF remained unchanged from fiscal year 2022 with 44% in U.S. Treasury Bills and 56% allocated to Agency paper.
- There were no inflows to the ITIF in fiscal year 2023 and one significant outflow just before the end of the fiscal year. The sole remaining participant in the ITIF withdrew all of their funds from the ITIF, leaving no assets in the fund at fiscal year-end.

The Board acknowledged the report. No further action was necessary.

After Comptroller Mumpower requested other business and heard none, he made a motion to adjourn the meeting, and Secretary Hargett seconded the motion. The motion was unanimously approved, and the meeting was adjourned.

Approved this 14th day of December 2023.

Respectfully submitted,

Sandra Thompson

Sandra Thompson
Assistant Secretary