

TENNESSEE STATE FUNDING BOARD
December 10, 2013
1:00 p.m. / Legislative Plaza – (Room LP-16)
AGENDA

1. Call Meeting to order
2. [Presentation of Revenue Report for December](#): Commissioner Larry Martin, Finance and Administration
3. Revenue Estimating Presentations:

Presenters:

[Dr. Albert DePrince](#), Professor of Economics and Finance
Middle Tennessee State University

[Dr. William Fox](#), Professor of Economics
U.T. Center for Business and Economic Research

[Commissioner Richard H. Roberts](#), Department of Revenue, State of Tennessee
Phillip Mize, Deputy Commissioner and Chief Financial Officer
Kirk Johnson, Director of Research
Jacob Gorman, Staff Economist

[Mr. Robert Currey](#), Chief Economist, Fiscal Review Committee

4. Lottery Revenue Estimating Presentations:

[Mr. Robert Currey](#), Chief Economist, Fiscal Review Committee

[Tennessee State Lottery](#):

Ms. Rebecca Hargrove, President and CEO

Mr. Andy Davis, Chief Financial and Technology Officer

[Mr. Tim Phelps](#), Associate Executive Director for Grant and Scholarship
Programs, Tennessee Student Assistance Corporation

5. [Request to the Board for consideration for program funding for the fiscal year 2014-2015 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-111\(c\)\(2\)\(B\)](#)
6. [Report of Treasurer's Earnings on Lottery Proceeds](#): Mr. Andy Palmer, Department of the Treasury
7. [State Pooled Investment Fund \(SPIF\) Report](#): Mr. Tim McClure, Department of the Treasury
8. Recess



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285

LARRY B. MARTIN
COMMISSIONER

FOR IMMEDIATE RELEASE
TUESDAY, DECEMBER 10, 2013

CONTACT: DAVID THURMAN
615-741-4806

NOVEMBER REVENUES

NASHVILLE - Tennessee revenue collections for November were above those of the prior year, but below budgeted estimates. Finance and Administration Commissioner Larry Martin reported today that state revenue collections for November were \$798.9 million, which is 3.99% above November 2012.

“While sales taxes and franchise and excise taxes came in below budgeted levels for November, our overall November revenue growth was the strongest so far this year,” Martin said. “Although they can be a bit unpredictable, it is important also to note that April is typically our biggest month for F&E collections. Nonetheless, the continued softness in revenue growth raises the risks of a revenue shortfall for the year.

“Therefore, we are committed to keeping expenditures in line with revenue collections so that Tennessee will continue to have a stable, balanced financial management in any economic climate.”

November sales tax collections reflect retail sales that occurred in October. Black Friday and after-Thanksgiving retail sales will be reflected in next month’s report.

On an accrual basis, November is the fourth month in the 2013-2014 fiscal year.

November collections were \$22.1 million less than the budgeted estimate. The general fund was under collected by \$22.1 million and the four other funds were equal to the November estimate.

Sales tax collections were \$2.0 million less than the estimate for November. The growth rate was positive 3.97%. Year-to-date the growth rate for four months is positive 3.53%.

Franchise and excise combined collections for November were \$34.7 million, which is \$16.4 million below the budgeted estimate of \$51.1 million. Year-to date the growth rate for four months is negative 11.38%.

Gasoline and motor fuel collections were \$0.5 million more than the budgeted estimate of \$71.8 million. For four months year-to-date collections are \$6.4 million below the budgeted estimate.

Tobacco tax collections for the month were under collected by \$2.1 million.

Privilege tax collections were \$2.2 million less than the budgeted estimate of \$21.1 million.

Inheritance and Estate taxes were over collected by \$0.7 million for the month.

Business tax collections were \$0.4 million above the November estimate.

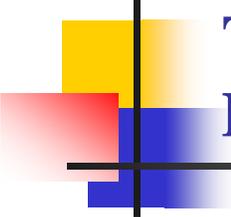
- MORE -

All other taxes were under collected by a net of \$1.0 million.

Year-to date collections for four months were \$123.2 million less than the budgeted estimate. The general fund was under collected by 118.6 million and the four other funds were under collected by \$4.6 million.

The budgeted revenue estimates for 2013-2014 are based on the State Funding Board's consensus recommendation of December 19th, 2012 and adopted by the first session of the 108th General Assembly in April 2013. They are available on the state's website at <http://www.tn.gov/finance/bud/Revenues.shtml>.

###



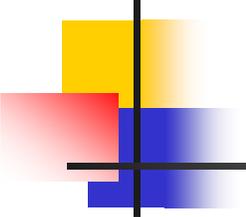
The State of the Economy and Prospects for Tax Revenue in Tennessee

presented to

Tennessee State Funding Board
Nashville, Tennessee
December 10, 2013

by

Albert E. DePrince, Jr.
Professor of Economics and Finance
Jennings A. Jones College of Business
Middle Tennessee State University
Murfreesboro, Tennessee
albert.deprince@mtsu.edu



The State of the Economy and Prospects for Tax Revenue in Tennessee

Contents

Supporting Background Material

Growth and Inflation: the New Normal or Misaligned Relations

Financial Liquidity: Return to Normal

The Business Cycle in Perspective

- The Investment Spending Picture
- Light Vehicle Sales and Housing
- Unemployment and Labor Force Participation
- Initial Unemployment Claims and Duration

Forward Looking Indexes and the Business Cycle

- ISM Index and Consumer Sentiment

Quantitative Easing

- The Extent
- Effects on Housing Prices and Equity Values
- Exchange Rates

Setting the Stage for the U.S. Outlook

- The Interest Rate Regime
- The FOMC's Short- and Long-Term Outlook

Forecasts

Baseline Economic Forecast

- General Overview
- Cyclical Characteristics
- Household Sector
- Corporate and International Sectors

Interest Rates

- Market-Based Outlook

The Interest Rate Outlook

- Graphic Portrayal
- Money Market Interest Rates
- Capital Market Interest Rates

The Tennessee Cycle in Perspective

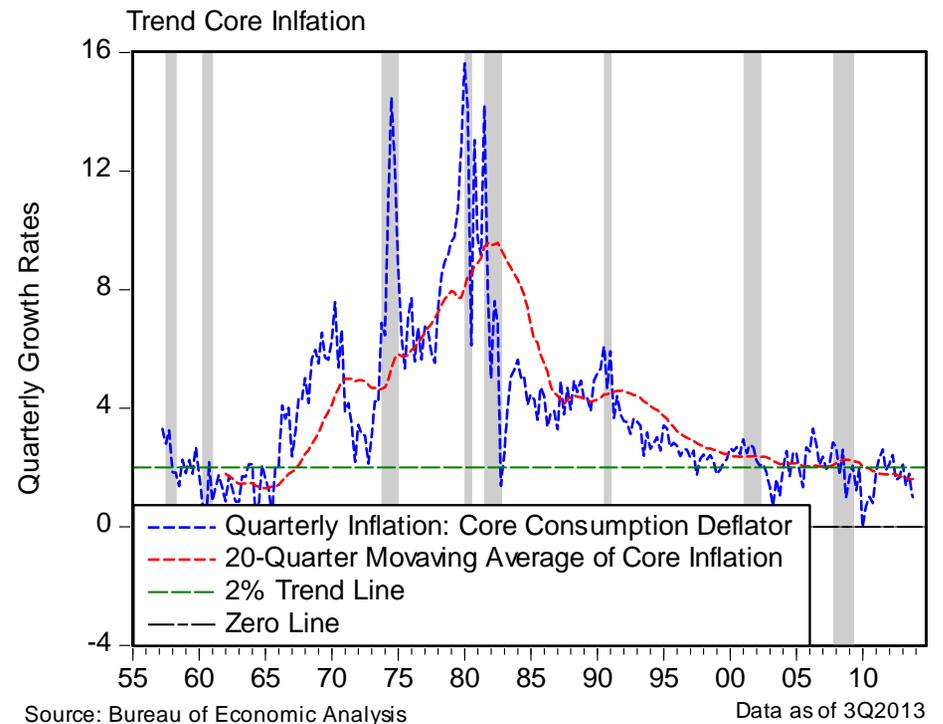
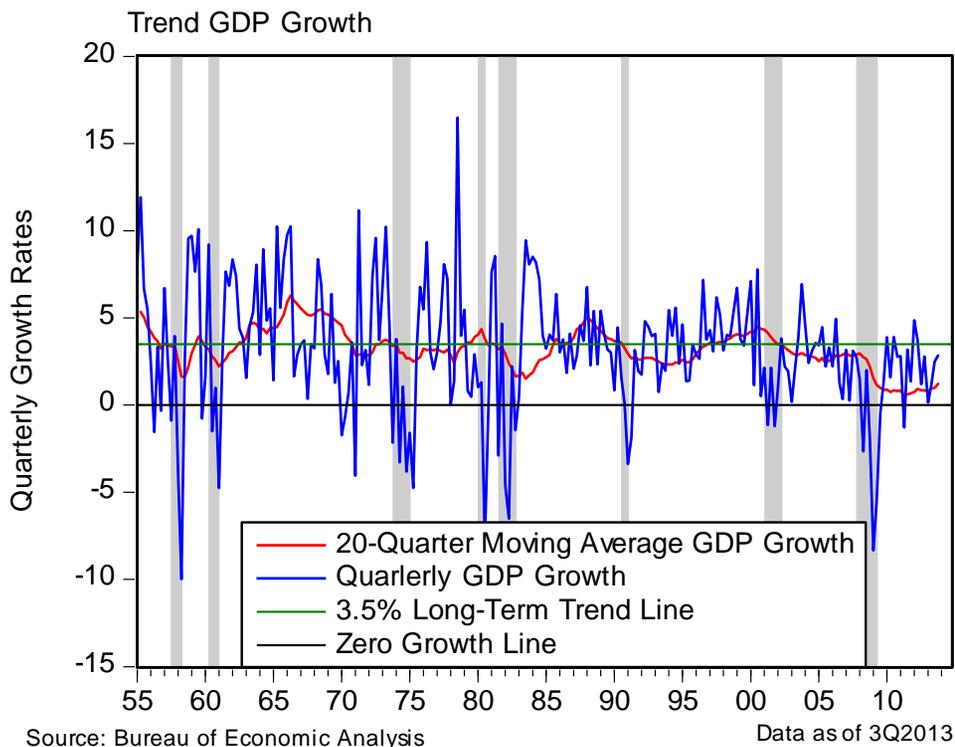
Outlook for Tennessee

- Baseline Tennessee Economic Outlook
- Fiscal-Year Economic Assumptions Behind the Revenue Projections
- Outlook for State Revenue

Alternative Outlooks and the Risk to the Forecast

Growth and Inflation

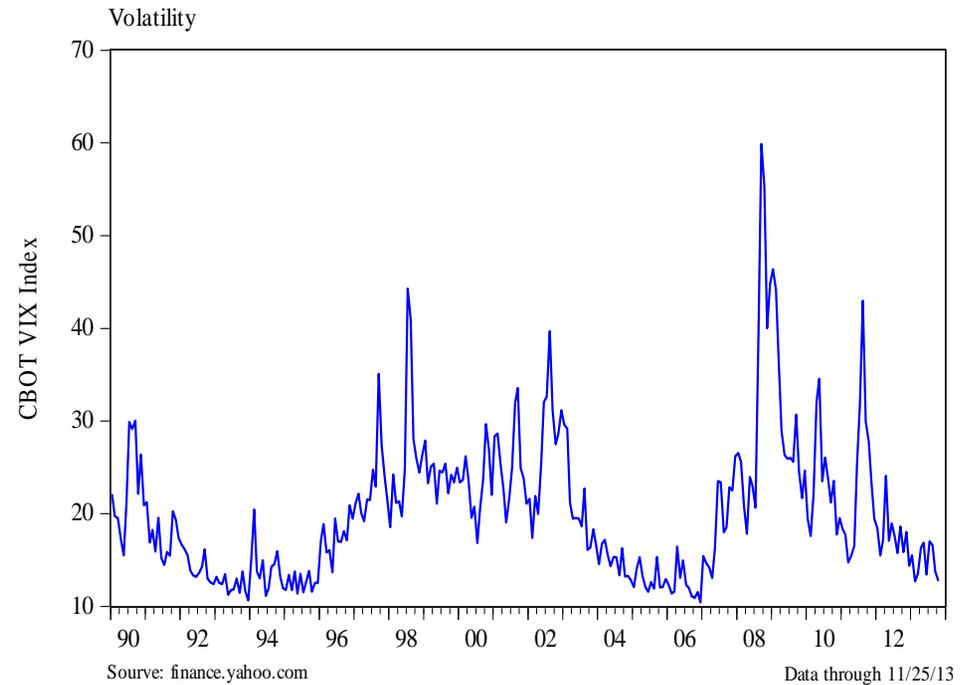
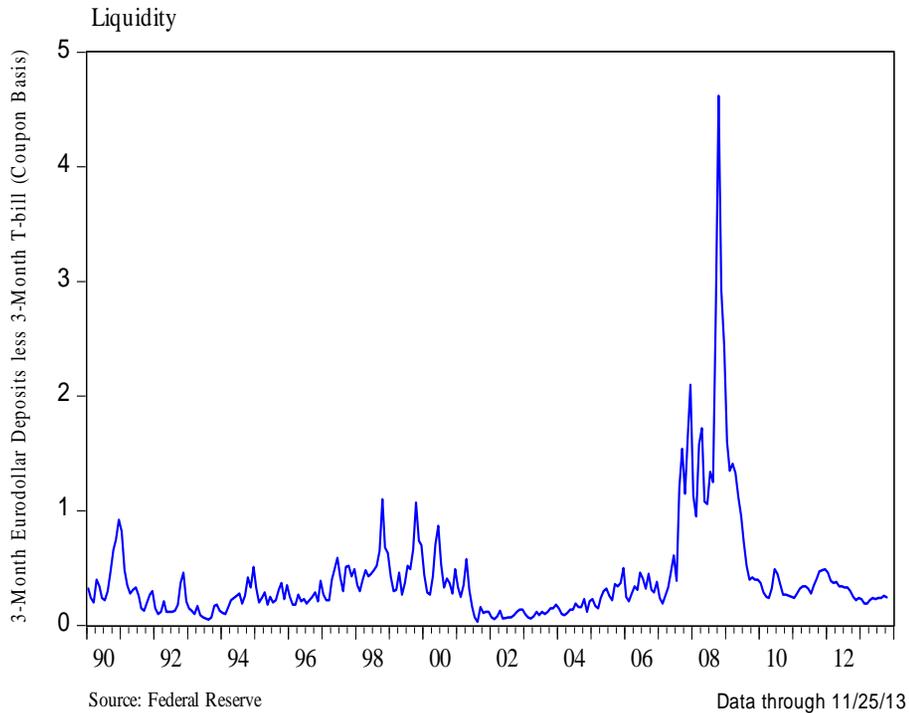
The New Normal or Misaligned Relations



shaded are represents recession period

Financial Liquidity and Risk

Return to Normality



The Business Cycle

Business Equipment and Software

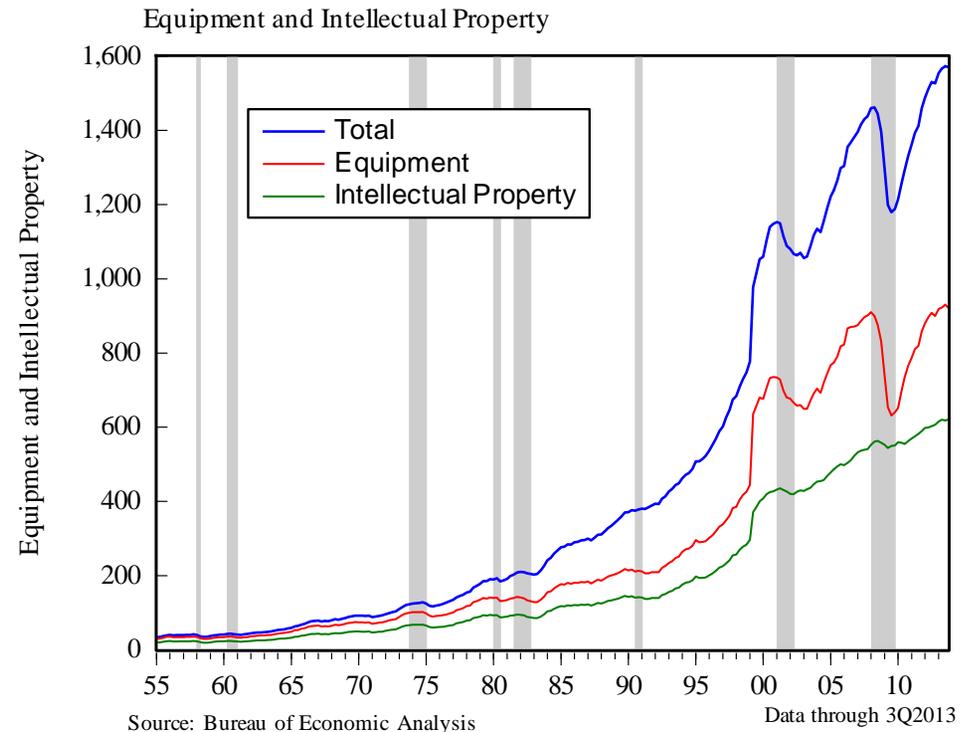
Data was revised this year

Split is now between equipment (including computers) and intellectual property

Decline in equipment spending was sharp in last recession

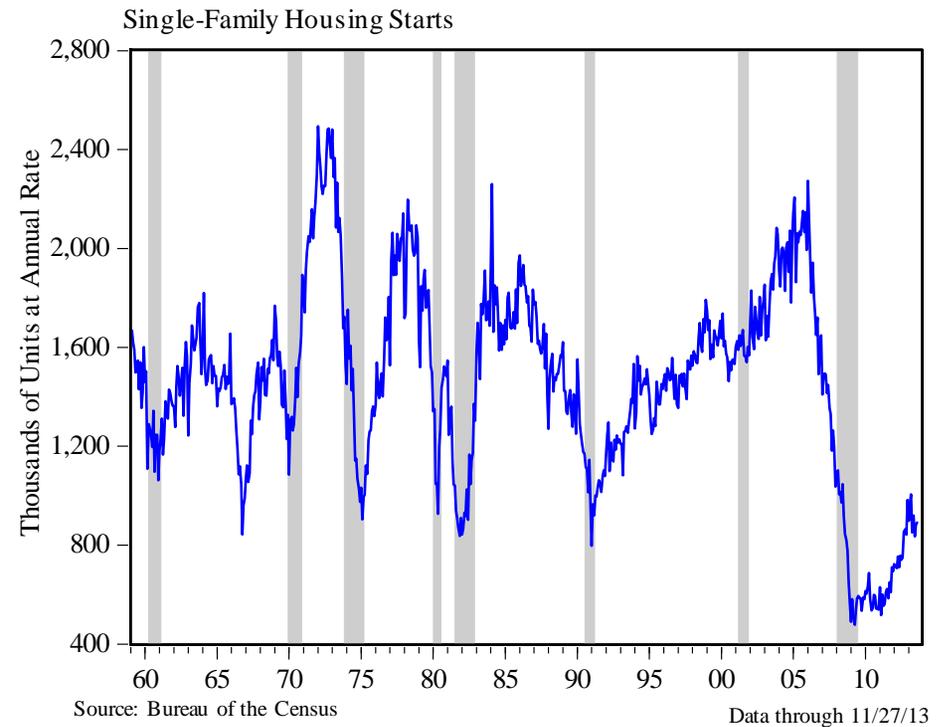
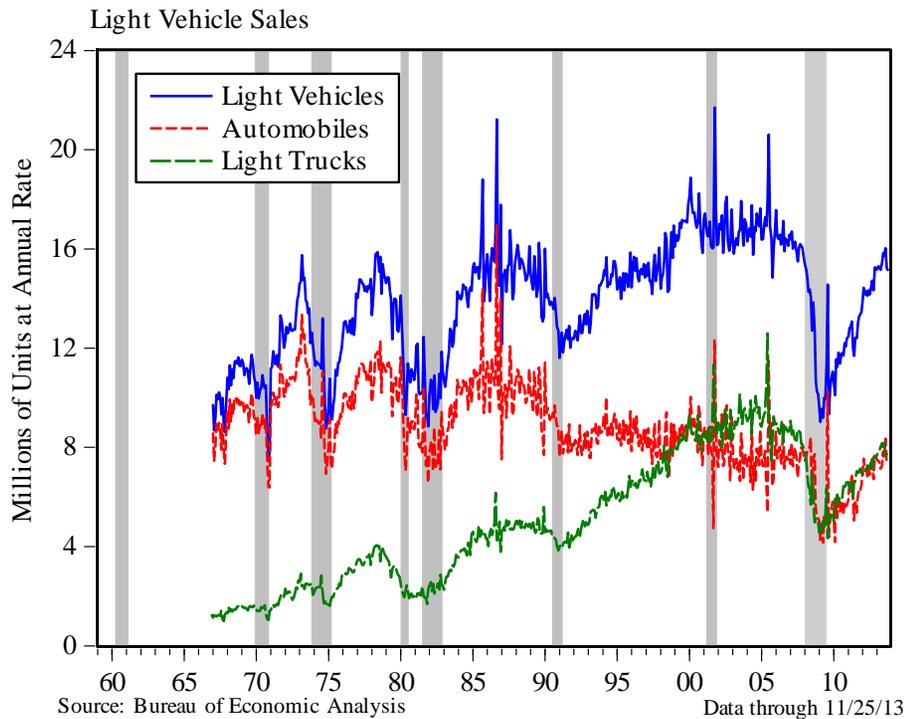
Rebound was also sharp with much of it in computers and related equipment

Spending in recent quarters has leveled off



The Business Cycle

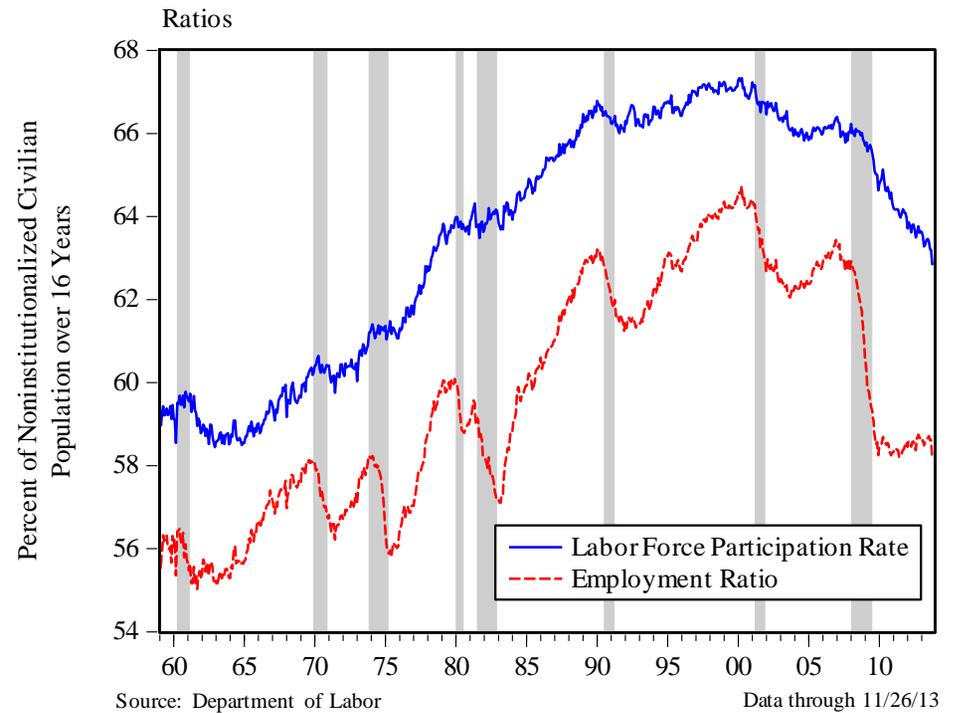
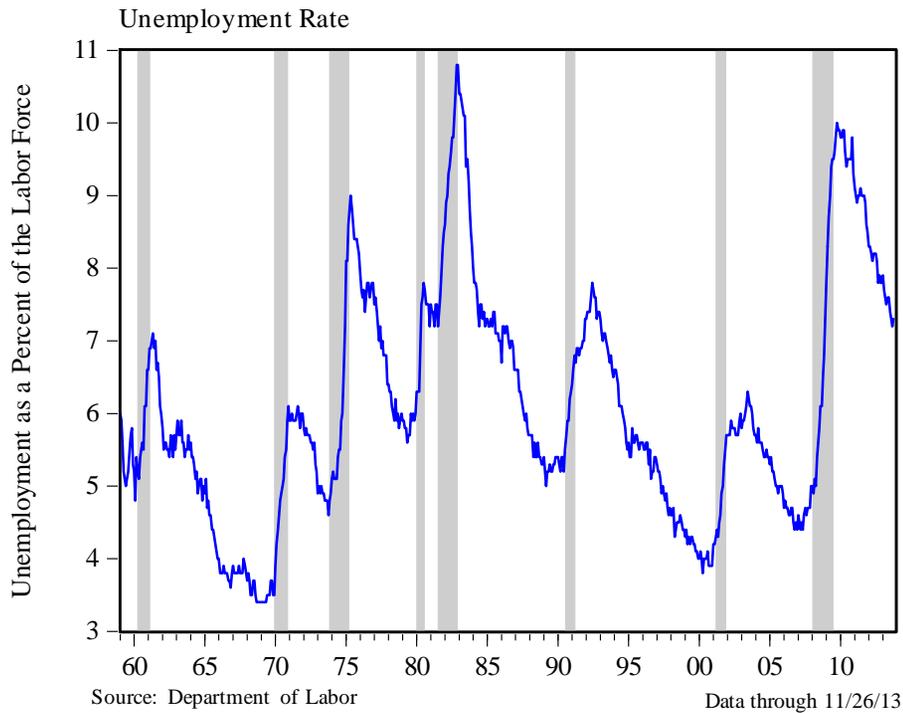
Light Vehicle Sales and Housing



shaded are represents recession period

The Business Cycle

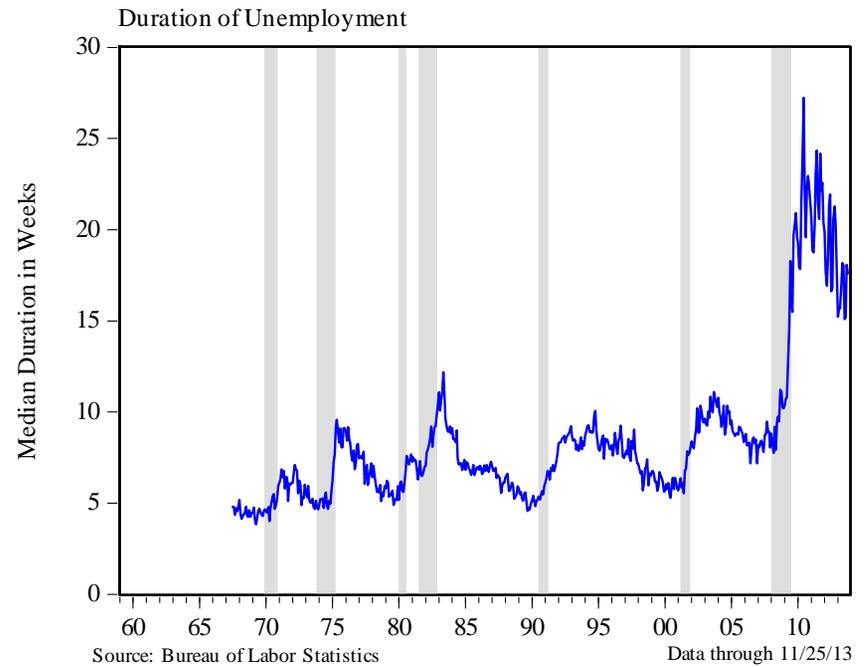
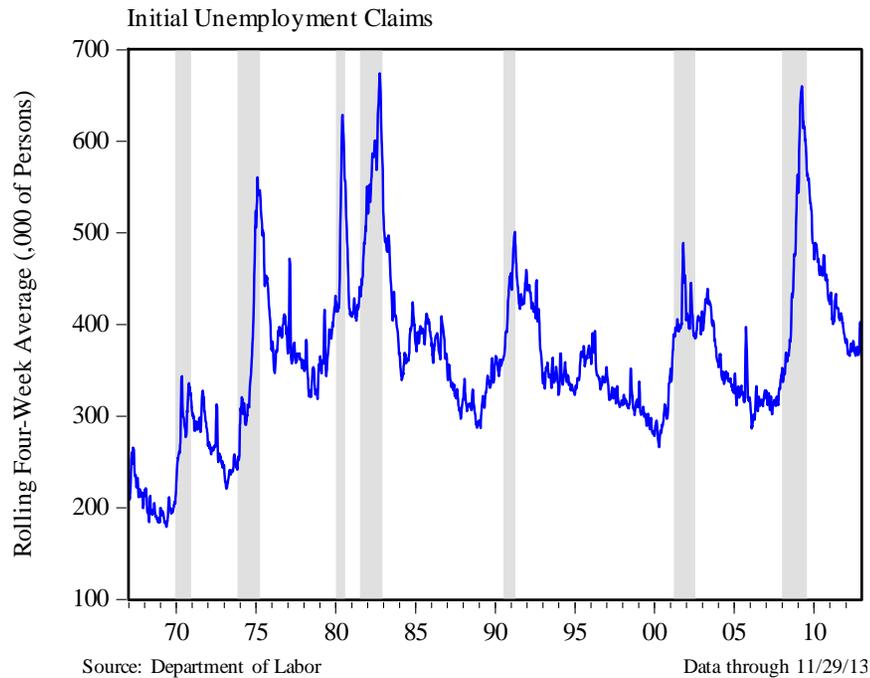
Unemployment Rate, Labor Force Participation Rate and Employment Ratio



shaded are represents recession period

The Business Cycle

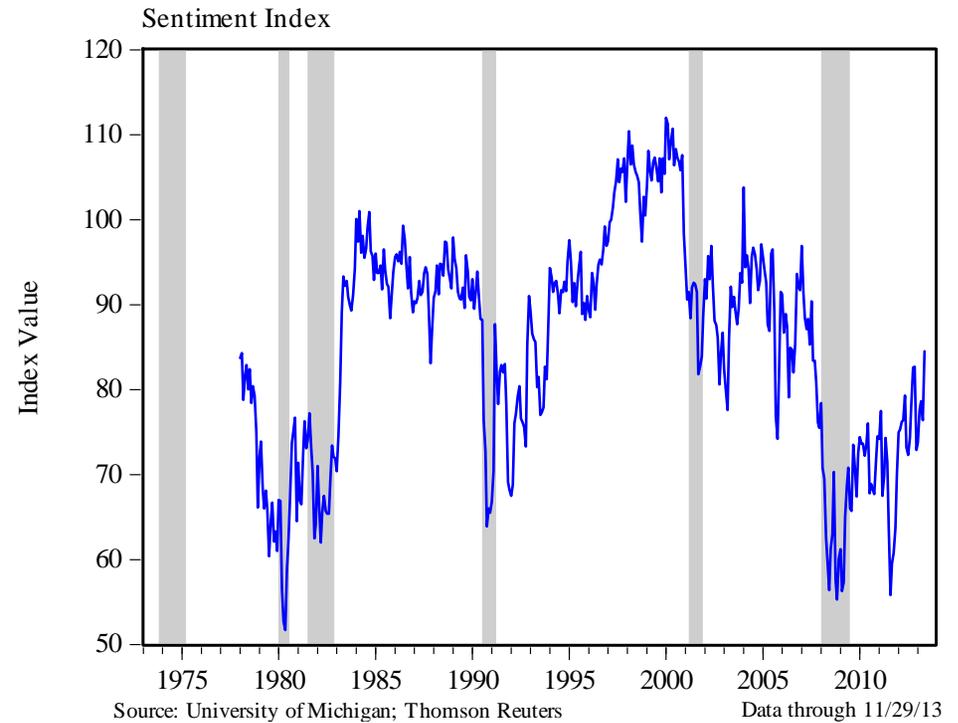
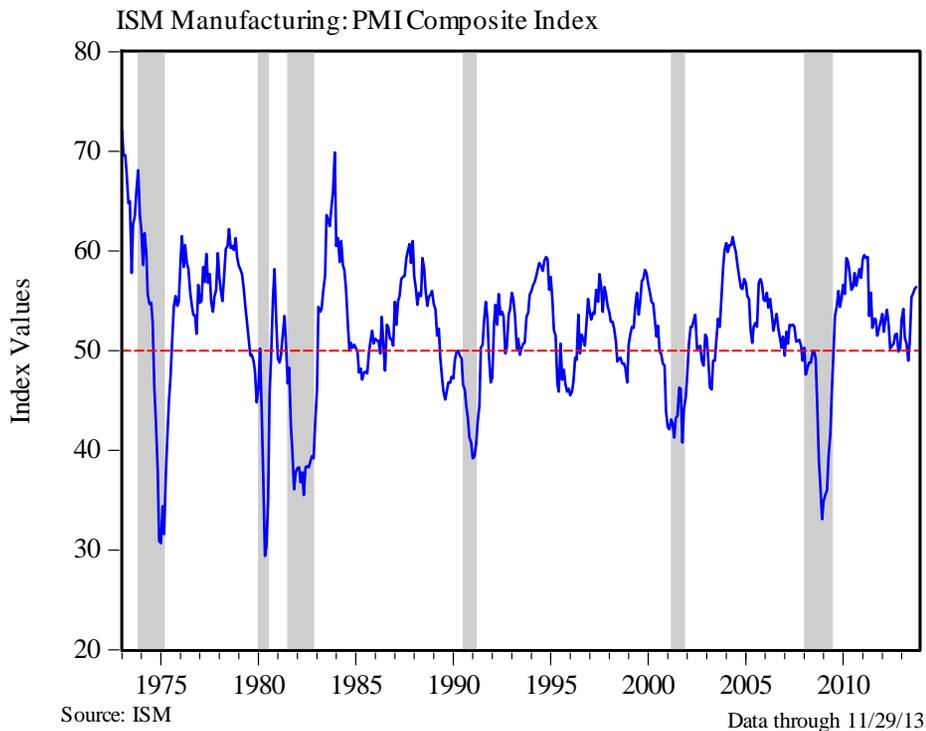
Initial Unemployment Claims and the Duration of Unemployment



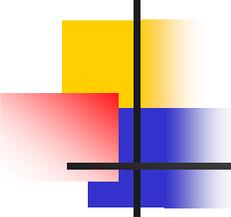
shaded are represents recession period

The Business Cycle and Forward Looking Indexes

Business and Consumer Sentiment



shaded are represents recession period



U.S. Economy: Potential Flash Points

International

- Mid-East Instability
- Nuclear Programs in Hostile Countries
- Eurozone Debt Problems
- Higher Chinese Bond Rates
- Chinese Adventurism
 - Air defense zone over East China Sea
 - Hint of air defense zone over South China Sea
 - Carrier Task Force moving into South China Sea

The End(?) of Quantitative Easing

Investor Risk Appetites

Risk-on / Risk-off Behavior

Asset Bubbles

Equity

Fixed Income Securities

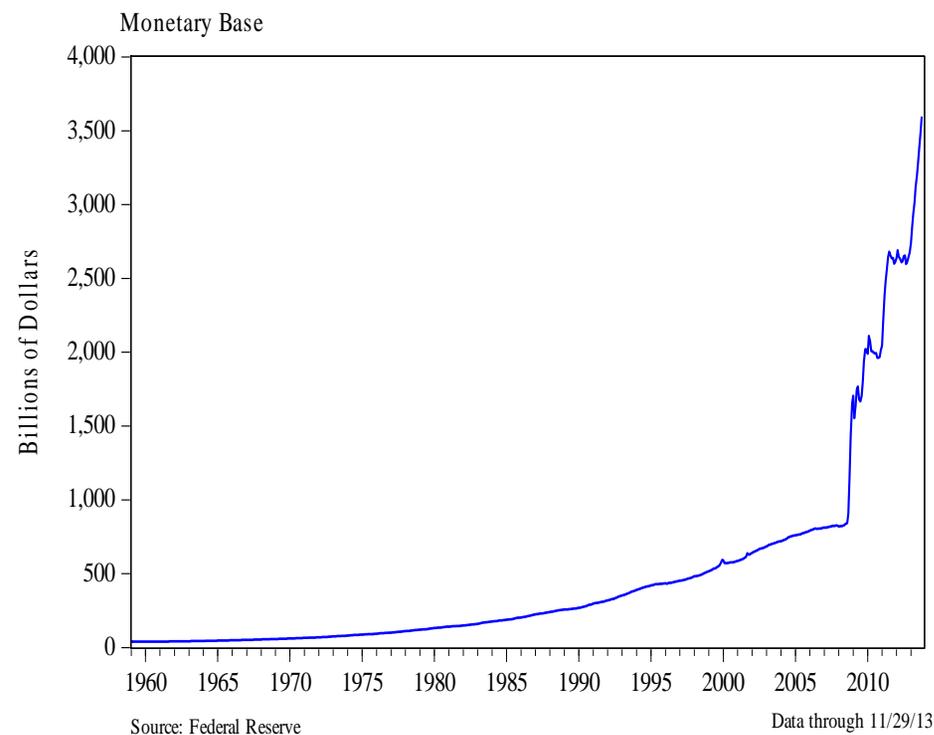
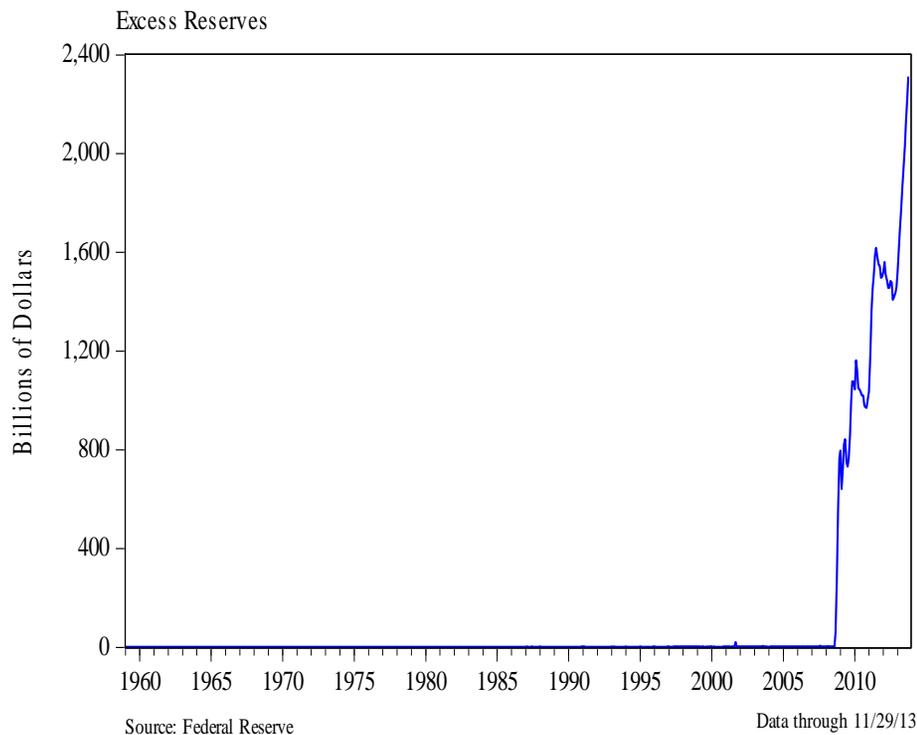
Real Estate

Fiscal Cliffs

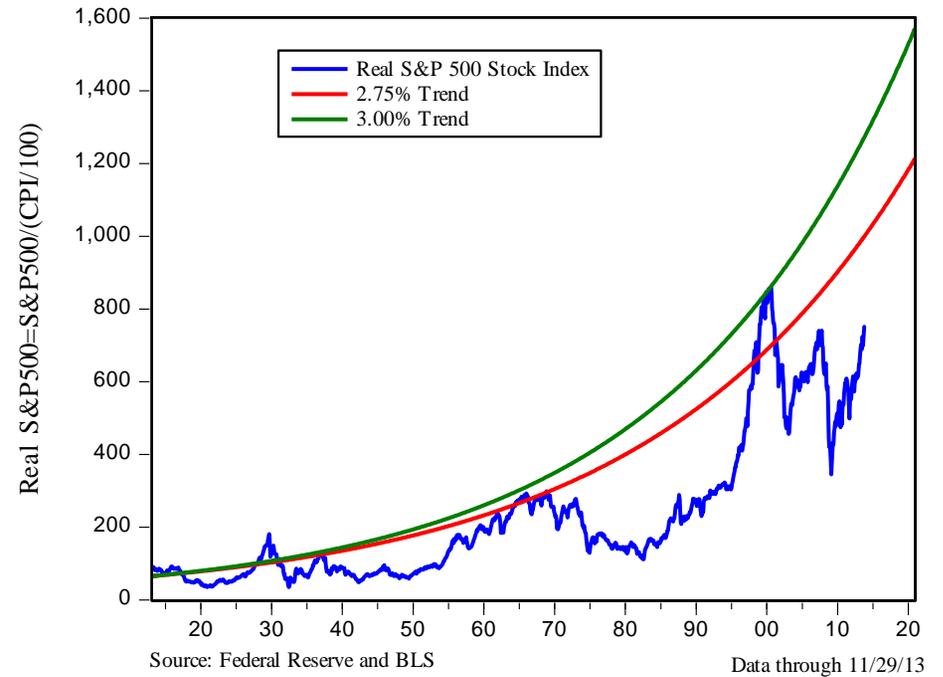
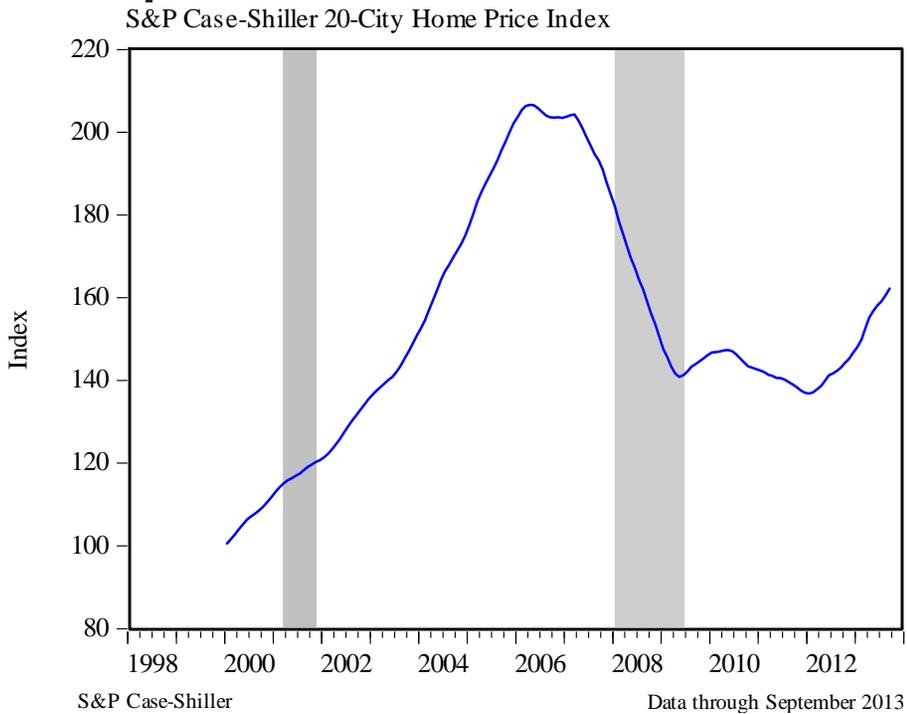
Sequestration

Debt ceilings

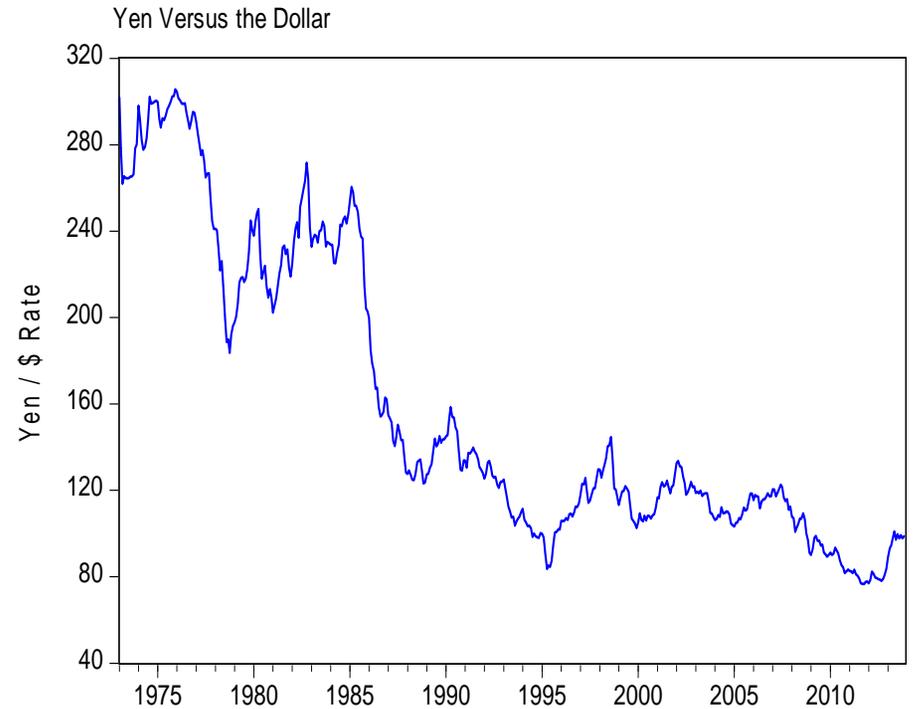
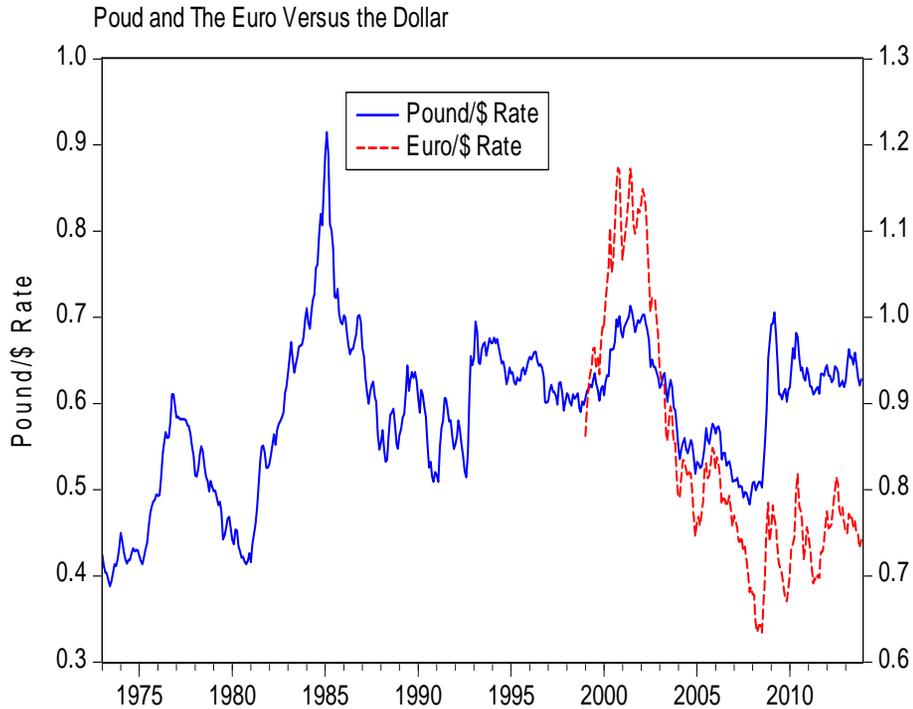
Quantitative Easing: *The Extent in Perspective*



Quantitative Easing: Effects on Housing Prices and Equity Values



Quantitative Easing: *Effects on Exchange rates*



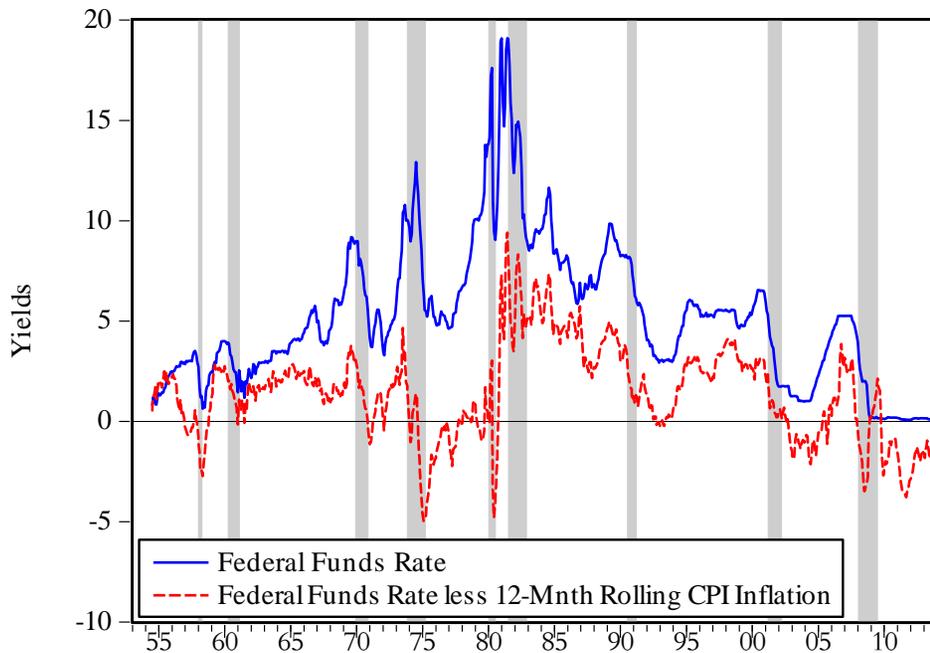
Data through 11/27/13

Data expressed as foreign currency per dollar

Source: Federal Reserve

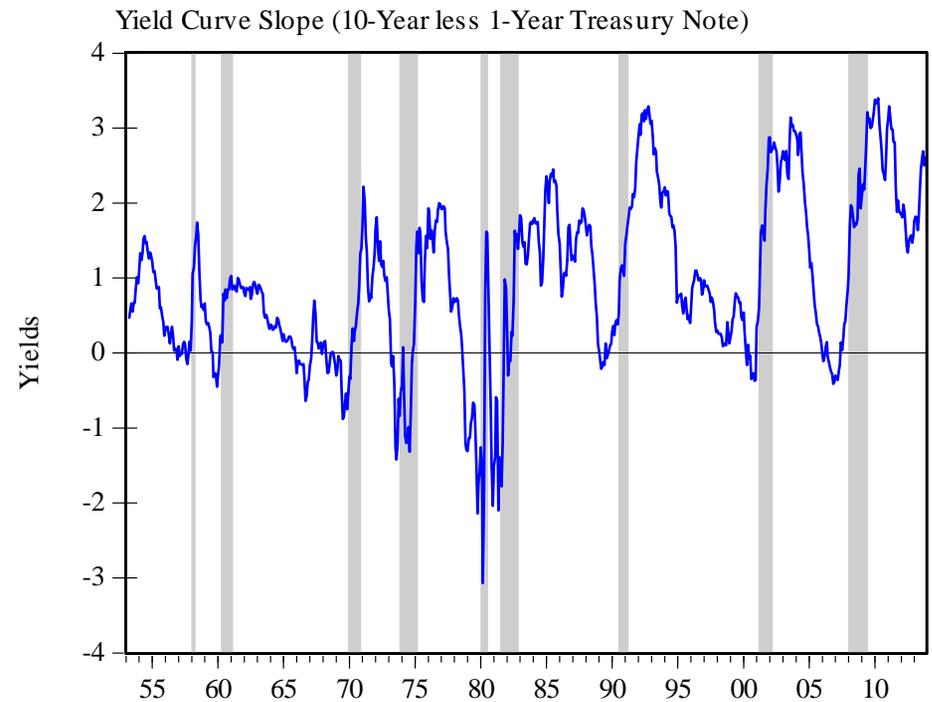
Setting the Stage for the U.S. Outlook

The Interest Rate Regime



Source: Federal Reserve / Bureau of Labor Statistics

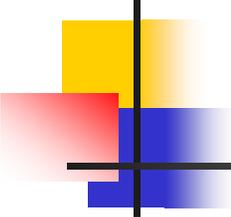
Data through 11/27/13



Source: Federal Reserve

Data through 11/27/13

shaded are represents recession period



Setting the Stage for the U.S. Outlook

The FOMC Short- and Long-Term Forecasts

Variable	Central tendency					Range				
	2013	2014	2015	2016	Longer run	2013	2014	2015	2016	Longer run
Change in real GDP	2.0 to 2.3	2.9 to 3.1	3.0 to 3.5	2.5 to 3.3	2.2 to 2.5	1.8 to 2.4	2.2 to 3.3	2.2 to 3.7	2.2 to 3.5	2.1 to 2.5
June projection	2.3 to 2.6	3.0 to 3.5	2.9 to 3.6	n.a.	2.3 to 2.5	2.0 to 2.6	2.2 to 3.6	2.3 to 3.8	n.a.	2.0 to 3.0
Unemployment rate	7.1 to 7.3	6.4 to 6.8	5.9 to 6.2	5.4 to 5.9	5.2 to 5.8	6.9 to 7.3	6.2 to 6.9	5.3 to 6.3	5.2 to 6.0	5.2 to 6.0
June projection	7.2 to 7.3	6.5 to 6.8	5.8 to 6.2	n.a.	5.2 to 6.0	6.9 to 7.5	6.2 to 6.9	5.7 to 6.4	n.a.	5.0 to 6.0
PCE inflation	1.1 to 1.2	1.3 to 1.8	1.6 to 2.0	1.7 to 2.0	2	1.0 to 1.3	1.2 to 2.0	1.4 to 2.3	1.5 to 2.3	2
June projection	0.8 to 1.2	1.4 to 2.0	1.6 to 2.0	n.a.	2	0.8 to 1.5	1.4 to 2.0	1.6 to 2.3	n.a.	2
<u>Core PCE inflation</u>	1.2 to 1.3	1.5 to 1.7	1.7 to 2.0	1.9 to 2.0		1.2 to 1.4	1.4 to 2.0	1.6 to 2.3	1.7 to 2.3	
June projection	1.2 to 1.3	1.5 to 1.8	1.7 to 2.0	n.a.		1.1 to 1.5	1.5 to 2.0	1.7 to 2.3	n.a.	
Source: Federal Open Market Committee						Current forecasts reports at the September FOMC meeting				

Baseline Economic Outlook

General Overview

	2013				2014				2015				Year-over-Year Growth		
	I(A) 2013	II(A) 2013	III(A) 2013	IV(A/E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	I(E) 2015	II(E) 2015	III(E) 2015	IV(E) 2015	2013	2014	2015
1 Gross Domestic Product	16420.3	16535.3	16661.0	16838.9	17013.1	17197.9	17387.1	17593.0	17811.4	18032.1	18250.3	18467.9	3.2	4.1	4.9
2 Change *	5.9	4.9	5.9	4.3	4.2	4.4	4.5	4.8	5.1	5.1	4.9	4.9			
3 Gross Dom. Product (96\$)	15539.6	15583.9	15679.7	15786.0	15883.2	15984.6	16085.7	16199.4	16323.4	16447.3	16568.5	16686.4	1.6	2.5	2.9
4 Change *	0.1	1.1	2.5	2.7	2.5	2.6	2.6	2.9	3.1	3.1	3.0	2.9			
5 Personal Consump. Exp. (96\$)	10584.8	10644.0	10691.9	10760.6	10817.9	10880.9	10946.4	11012.3	11089.9	11164.5	11244.5	11320.5	2.0	2.3	2.7
6 Change *	1.7	2.3	1.8	2.6	2.1	2.4	2.4	2.4	2.8	2.7	2.9	2.7			
7 Equipment and Software (96\$)	1554.2	1566.8	1573.4	1574.4	1582.7	1592.6	1601.6	1616.4	1633.0	1651.9	1669.0	1685.6	3.5	2.0	3.8
8 Change *	7.3	3.3	1.7	0.3	2.1	2.5	2.3	3.7	4.2	4.7	4.2	4.0			
9 Nonresid. Construction (96\$)	439.4	407.9	424.8	428.2	430.7	432.8	435.3	432.9	431.8	431.4	433.6	435.6	3.1	1.8	0.0
10 Change *	17.5	-25.7	17.6	3.3	2.3	1.9	2.4	-2.3	-0.9	-0.4	2.1	1.8			
11 Resid. Construction (96\$)	457.5	471.2	487.1	489.6	500.1	507.5	514.5	533.5	554.0	578.0	592.3	606.8	13.8	7.9	13.4
12 Change *	19.8	12.5	14.2	2.0	8.9	6.1	5.7	15.6	16.3	18.5	10.3	10.1			
13 Federal Defense (96\$)	745.0	723.1	722.0	723.5	723.1	723.1	723.1	723.1	723.1	723.1	723.1	723.1	-6.5	-0.7	0.0
14 Change *	-21.6	-11.3	-0.6	0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
15 Fed. Nondefense (96\$)	453.9	449.8	446.2	449.4	452.0	454.7	457.7	460.8	464.1	467.4	470.8	474.2	0.3	1.4	2.8
16 Change *	1.0	-3.6	-3.2	2.9	2.4	2.4	2.7	2.7	2.9	2.9	2.9	2.9			
17 State + Local (96\$)	1739.8	1734.3	1736.0	1738.6	1742.0	1745.8	1750.1	1754.7	1759.8	1765.3	1770.9	1776.4			
18 Change *	-1.0	-1.3	0.4	0.6	0.8	0.9	1.0	1.1	1.2	1.3	1.3	1.3	-0.4	0.6	1.1
19 Net Exports ('96\$)	-412.1	-422.3	-424.4	-414.6	-401.4	-391.7	-384.6	-378.5	-379.0	-382.0	-384.1	-384.7			
20 Chg. in Bus. Invent. (96\$)	7.3	42.2	56.6	36.1	36.1	38.8	41.5	44.4	46.7	47.6	48.3	48.9			
21 Nonfarm Inventories	20.3	22.2	32.7	28.4	33.8	38.7	42.2	45.4	47.9	48.8	49.5	50.1			
22 Farm Inventories	-9.6	16.0	19.5	7.7	2.3	0.1	-0.7	-1.0	-1.1	-1.2	-1.2	-1.2			
23 GNP Deflator ('96=100) *	1.4	1.7	0.6	1.6	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.6	1.6	1.9
24 CPI (1982-84=100) *	1.4	0.0	2.6	1.4	1.4	1.5	1.6	1.7	1.8	1.8	1.9	2.1	1.5	1.5	1.8
25 PPI (1982=100) *	0.7	-1.6	3.9	-1.0	-0.1	0.2	0.5	0.8	1.0	1.0	1.2	1.3	1.2	0.3	0.9

A = Actual; E = Forecast

* Annualized percent change

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS

December 1, 2013

Baseline Economic Outlook

Cyclical Characteristics

	2013				2014				2015				Year-over-Year Growth		
	I(A) 2013	II(A) 2013	III(A) 2013	IV(A/E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	I(E) 2015	II(E) 2015	III(E) 2015	IV(E) 2015	2013	2014	2015
1 Domestic Final Sales ('96\$)	15944.4	15964.0	16047.5	16164.4	16248.5	16337.5	16428.8	16533.6	16655.6	16781.7	16904.3	17022.2	1.7	2.3	3.0
2 Change *	1.3	0.5	2.1	2.9	2.1	2.2	2.3	2.6	3.0	3.1	3.0	2.8			
3 Cyclical Domestic Demand ('96\$)	3736.3	3749.4	3808.5	3830.7	3864.3	3895.9	3925.1	3963.7	4014.7	4067.8	4115.8	4157.9	6.0	3.5	4.5
4 Change *	11.0	1.4	6.5	2.4	3.6	3.3	3.0	4.0	5.2	5.4	4.8	4.2			
5 Cyclical Consumer Demand ('96\$)	1285.2	1303.5	1323.2	1338.5	1350.9	1363.0	1373.6	1381.0	1395.9	1406.5	1420.9	1429.9	7.3	4.2	3.4
6 Change *	10.5	5.8	6.2	4.7	3.8	3.6	3.2	2.2	4.4	3.1	4.1	2.6			
7 Light Vehicles and Parts ('96\$)	380.6	379.7	385.8	390.2	392.1	394.4	394.8	395.9	401.9	405.6	412.5	415.5	5.5	2.7	3.7
8 Change *	5.2	-0.9	6.6	4.6	1.9	2.4	0.4	1.2	6.2	3.8	6.9	2.9			
9 Other Durables ('96\$)	904.6	923.8	937.4	948.3	958.8	968.6	978.8	985.1	994.0	1000.9	1008.4	1014.4	8.0	4.8	3.2
10 Change *	12.9	8.8	6.0	4.7	4.5	4.2	4.3	2.6	3.7	2.8	3.0	2.4			
11 Fixed Investment ('96\$)	2429.1	2420.0	2458.4	2492.2	2513.5	2532.8	2551.5	2582.7	2618.8	2661.3	2695.0	2728.0	5.3	3.9	5.1
12 Change *	11.6	-1.5	6.5	5.6	3.4	3.1	3.0	5.0	5.7	6.7	5.2	5.0			
13 Resid. Construction (96\$)	457.5	471.2	487.1	489.6	500.1	507.5	514.5	533.5	554.0	578.0	592.3	606.8	13.8	7.9	13.4
14 Change *	19.8	12.5	14.2	2.0	8.9	6.1	5.7	15.6	16.3	18.5	10.3	10.1			
15 Nonresid. Construction ('96\$)	439.4	407.9	424.8	428.2	430.7	432.8	435.3	432.9	431.8	431.4	433.6	435.6	3.1	1.8	0.0
16 Change *	17.5	-25.7	17.6	3.3	2.3	1.9	2.4	-2.3	-0.9	-0.4	2.1	1.8			
17 Equipment and Software ('96\$)	1554.2	1566.8	1573.4	1574.4	1582.7	1592.6	1601.6	1616.4	1633.0	1651.9	1669.0	1685.6	3.5	2.0	3.8
18 Change *	7.3	3.3	1.7	0.3	2.1	2.5	2.3	3.7	4.2	4.7	4.2	4.0			
19 Noncyclical Demand ('96\$)@	11803.3	11834.5	11871.2	11955.3	12018.9	12088.7	12160.6	12235.7	12308.7	12379.5	12452.6	12528.5	0.3	2.2	2.4
20 Change *	-3.0	1.1	1.2	2.9	2.1	2.3	2.4	2.5	2.4	2.3	2.4	2.5			
21 Chg. in Business Inventories	7.3	42.2	56.6	36.1	36.1	38.8	41.5	44.4	46.7	47.6	48.3	48.9			
22 Gross Domestic Purchases ('96\$)&	15982.0	16039.5	16138.3	16200.6	16284.6	16376.3	16470.3	16578.0	16702.4	16829.2	16952.6	17071.1	1.5	2.1	2.8
23 Change *	-0.3	1.4	2.5	1.6	2.1	2.3	2.3	2.6	3.0	3.1	3.0	2.8			
24 Net Exports ('96\$)	-412.1	-422.3	-424.4	-414.6	-401.4	-391.7	-384.6	-378.5	-379.0	-382.0	-384.1	-384.7			
25 GDP ('96\$)**	15539.6	15583.9	15679.7	15786.0	15883.2	15984.6	16085.7	16199.4	16323.4	16447.3	16568.5	16686.4	1.6	2.5	2.9
Change *	0.1	1.1	2.5	2.7	2.5	2.6	2.6	2.9	3.1	3.1	3.0	2.9			

@ Noncyclical Demand = Consumer spending on nondurable goods and services and all forms of government spending (excluding CCC inventories)

& Gross Domestic Purchases = Domestic final demand plus Change *

A = Actual; E = Forecast

* Annualized percent change

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS

December 1, 2013

Baseline Economic Outlook

Household Sector

	2013				2014				2015				Year-over-Year Growth		
	I(A) 2013	II(A) 2013	III(A) 2013	IV(A/E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	I(E) 2015	II(E) 2015	III(E) 2015	IV(E) 2015	2013	2014	2015
1 Personal Income (\$ Bil.)	13925.9	14065.0	14197.7	14317.2	14461.7	14623.0	14778.1	14940.4	15114.9	15294.1	15472.0	15648.5	2.8	4.1	4.6
2 Change *	-4.1	4.1	3.8	3.4	4.1	4.5	4.3	4.5	4.8	4.8	4.7	4.6			
3 Civilian Employment (Mil.)	143.4	143.8	144.3	144.5	144.8	145.2	145.5	145.8	146.2	146.6	147.0	147.4	1.1	0.9	1.0
4 Change *	0.2	1.3	1.1	0.8	0.8	0.9	0.9	0.9	1.1	1.2	1.1	1.1			
5 Unemployment Rate	7.7	7.6	7.3	7.1	7.1	7.1	7.0	6.9	6.9	6.9	6.9	7.0	7.4	7.0	6.9
6 Personal Consump. Exp. ('96\$)	10584.8	10644.0	10691.9	10760.6	10817.9	10880.9	10946.4	11012.3	11089.9	11164.5	11244.5	11320.5	2.0	2.3	2.7
7 Change *	1.7	2.3	1.8	2.6	2.1	2.4	2.4	2.4	2.8	2.7	2.9	2.7			
8 Autos & Parts	380.6	379.7	385.8	390.2	392.1	394.4	394.8	395.9	401.9	405.6	412.5	415.5	5.5	2.7	3.7
9 Change *	5.2	-0.9	6.6	4.6	1.9	2.4	0.4	1.2	6.2	3.8	6.9	2.9			
10 Other Durable Goods	904.6	923.8	937.4	948.3	958.8	968.6	978.8	985.1	994.0	1000.9	1008.4	1014.4	8.0	4.8	3.2
11 Change *	12.9	8.8	6.0	4.7	4.5	4.2	4.3	2.6	3.7	2.8	3.0	2.4			
12 Nondurable Goods	2306.7	2322.2	2331.7	2344.2	2357.3	2372.0	2387.6	2404.3	2422.5	2440.0	2458.0	2476.3	1.7	2.3	2.9
13 Change *	0.6	2.7	1.6	2.2	2.3	2.5	2.7	2.8	3.1	2.9	3.0	3.0			
14 Services	7004.7	7031.1	7051.5	7078.0	7109.7	7145.9	7185.1	7226.9	7271.5	7317.9	7365.7	7414.3	1.2	1.8	2.4
15 Change *	0.6	1.5	1.2	1.5	1.8	2.1	2.2	2.3	2.5	2.6	2.6	2.7			
16 Lt. Vehicles	15.3	15.5	15.7	15.8	15.8	15.9	15.8	15.8	16.0	16.1	16.3	16.3	7.7	1.8	2.2
17 Change *	9.1	5.9	5.0	4.0	0.4	0.9	-1.1	-0.3	4.6	2.2	5.4	1.4			
18 New Auto Sales (Mil.)	7.5	7.5	7.7	7.8	7.8	7.8	7.8	7.8	7.8	7.9	8.0	8.0	5.1	2.0	2.2
19 Change *	3.2	-4.7	13.8	2.8	0.4	0.9	-1.1	-0.3	4.6	2.2	5.4	1.4			
20 New Light Truck Sales (Mil.)	7.7	8.0	8.0	8.1	8.1	8.1	8.1	8.1	8.2	8.2	8.3	8.3	10.2	1.7	2.2
21 Change *	15.3	17.1	-2.8	5.1	0.4	0.9	-1.1	-0.3	4.6	2.2	5.4	1.4			
22 Private Housing Starts (Mil.)	0.957	0.869	0.887	1.066	0.987	1.007	0.976	1.138	1.218	1.364	1.408	1.486	20.6	8.7	33.3
23 Change *	30.1	-32.2	8.7	108.5	-26.6	8.5	-11.6	84.7	30.9	57.4	13.7	24.0			
24 Single-Family	0.630	0.598	0.608	0.625	0.650	0.675	0.700	0.800	0.900	1.000	1.050	1.100	14.6	14.8	43.4
25 Multi-Family	0.328	0.270	0.280	0.441	0.337	0.332	0.276	0.338	0.318	0.364	0.358	0.386	33.7	-2.7	11.1
26 Existing Home Sales (Th.)	4943.3	5056.7	5435.0	5086.9	5132.5	5006.7	4972.9	4986.8	5110.2	5152.9	5156.6	5111.3	9.4	-2.1	2.1
27 Change *	3.9	9.5	33.5	-23.3	3.6	-9.4	-2.7	1.1	10.3	3.4	0.3	-3.5			

A = Actual; E = Forecast

* Annualized percent change

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

December 1, 2013

Baseline Economic Outlook

Corporate and International Sectors

	2013				2014				2015				Year-over-Year Growth		
	I(A) 2013	II(A) 2013	III(A) 2013	IV(A/E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	I(E) 2015	II(E) 2015	III(E) 2015	IV(E) 2015	2013	2014	2015
1 Fixed Business Invest. ('96\$)	1971.9	1949.0	1971.3	2002.7	2013.4	2025.3	2037.0	2049.2	2064.8	2083.3	2102.6	2121.2	3.4	2.9	3.0
2 Change *	9.8	-4.6	4.7	6.5	2.2	2.4	2.3	2.4	3.1	3.6	3.8	3.6			
3 Structures	439.4	407.9	424.8	428.2	430.7	432.8	435.3	432.9	431.8	431.4	433.6	435.6	3.1	1.8	0.0
4 Change *	17.5	-25.7	17.6	3.3	2.3	1.9	2.4	-2.3	-0.9	-0.4	2.1	1.8			
5 Producer Equip. & Software	1554.2	1566.8	1573.4	1574.4	1582.7	1592.6	1601.6	1616.4	1633.0	1651.9	1669.0	1685.6	3.5	2.0	3.8
6 Change *	7.3	3.3	1.7	0.3	2.1	2.5	2.3	3.7	4.2	4.7	4.2	4.0			
7 Chg. in Bus. Invent. ('96\$)	7.3	42.2	56.6	36.1	36.1	38.8	41.5	44.4	46.7	47.6	48.3	48.9			
8 Chg. In Nonfarm Inventories	20.3	22.2	32.7	28.4	33.8	38.7	42.2	45.4	47.9	48.8	49.5	50.1			
9 Corporate Profits (B.T.)	2193.1	2239.7	2287.2	2327.4	2340.6	2359.1	2377.6	2398.7	2428.3	2459.9	2475.1	2502.3			
10 Corporate Profits (A.T.)	1784.8	1821.4	1858.4	1891.0	1895.8	1910.9	1914.0	1930.9	1942.6	1967.9	1980.1	2001.8	4.8	4.0	3.1
11 Change *	-2.6	8.5	8.4	7.2	1.0	3.2	0.6	3.6	2.4	5.3	2.5	4.5			
12 Internal Funds (A.T.)	1853.6	1846.8	1831.9	1838.5	1855.1	1868.1	1849.3	1847.7	1843.6	1866.9	1883.9	1911.8	5.6	0.7	1.2
13 Change *	39.3	-1.5	-3.2	1.4	3.7	2.8	-4.0	-0.3	-0.9	5.2	3.7	6.1			
14 Dividends	763.8	810.9	858.0	891.6	911.2	921.9	930.0	938.6	948.9	960.9	973.5	986.1	7.9	11.4	4.5
15 Change *	-39.9	27.0	25.3	16.6	9.1	4.7	3.6	3.7	4.5	5.1	5.4	5.3			
16 Output per Hour *	4.2	3.8	2.3	3.3	2.3	2.3	2.2	2.4	2.5	2.4	2.3	2.2	2.7	2.6	2.4
17 Hourly Compensation *	9.2	9.0	5.8	2.5	3.3	3.8	3.4	3.7	3.9	3.9	3.7	3.7	6.5	3.9	3.8
18 Unit Labor Costs *	4.8	5.0	3.5	-0.8	0.9	1.6	1.2	1.2	1.5	1.5	1.4	1.4	3.7	1.3	1.4

	2013				2014				2015				Year-over-Year Growth		
	I(A) 2013	II(A) 2013	III(A) 2013	IV(A/E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	I(E) 2015	II(E) 2015	III(E) 2015	IV(E) 2015	2013	2014	2015
1 Net Exports ('96\$)	-412.1	-422.3	-424.4	-414.6	-401.4	-391.7	-384.6	-378.5	-379.0	-382.0	-384.1	-384.7			
2 Exports ('96\$)	1967.0	1960.5	1998.4	2024.8	2048.4	2070.9	2093.3	2115.9	2136.7	2157.6	2178.8	2200.1	2.1	4.8	4.1
3 Change *	1.1	-1.3	8.0	5.4	4.7	4.5	4.4	4.4	4.0	4.0	4.0	4.0			
4 Imports ('96\$)	2379.1	2382.7	2422.9	2439.4	2449.8	2462.6	2477.9	2494.4	2515.6	2539.6	2562.9	2584.8	0.8	2.7	3.2
5 Change *	-3.1	0.6	6.9	2.8	1.7	2.1	2.5	2.7	3.4	3.9	3.7	3.5			
6 Trade-Weighted Index	74.9	76.6	76.7	76.5	76.7	77.0	77.0	76.8	76.7	76.3	76.1	75.8	3.6	0.9	-0.8

A = Actual; E = Forecast

* Annualized percent change

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

December 1, 2013

Outlook for Interest Rates

Market-Based Forecasts:

Futures Market over the Next Three Years

Futures market does not see tighter policy until second half of 2015

Futures market seems to be rolling the likely shift in policy month by month

A year ago, the futures market saw the first signs of tighter policy in the second half of 2014

This is consistent with Federal Reserve's stated interest rate policy

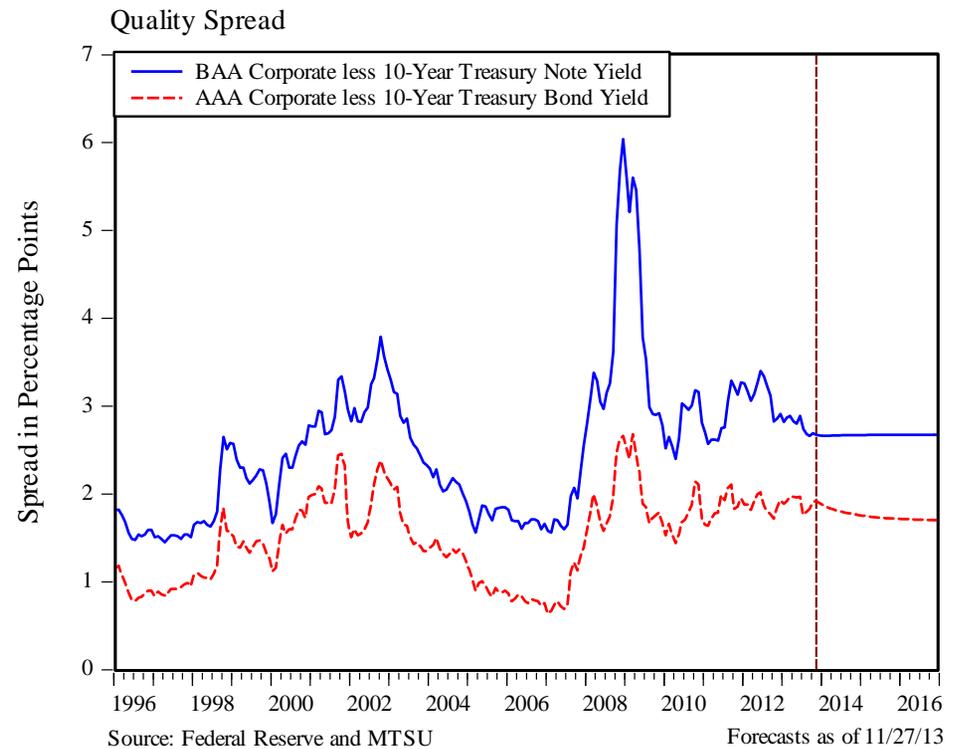
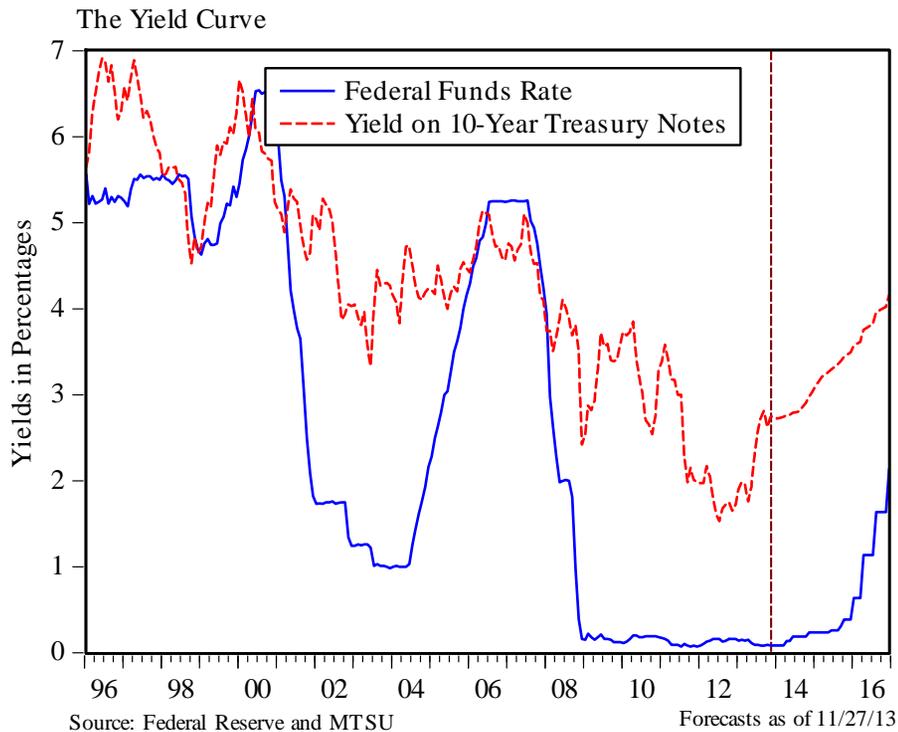
Which is one of near zero rates for as long as it is need

With the move toward tighter policy not seen until the unemployment rate drops below 6.5% or the core consumption deflator rises above 2%

Nov-13	0.08	May-15	0.23
Dec-13	0.08	Jun-15	0.25
Jan-14	0.08	Jul-15	0.28
Feb-14	0.08	Aug-15	0.33
Mar-14	0.09	Sep-15	0.36
Apr-14	0.09	Oct-15	0.40
May-14	0.09	Nov-15	0.47
Jun-14	0.09	Dec-15	0.50
Jul-14	0.09	Jan-16	0.55
Aug-14	0.10	Feb-16	0.64
Sep-14	0.11	Mar-16	0.69
Oct-14	0.11	Apr-16	0.77
Nov-14	0.12	May-16	0.86
Dec-14	0.13	Jun-16	0.92
Jan-15	0.14	Jul-16	0.99
Feb-15	0.16	Aug-16	1.09
Mar-15	0.18	Sep-16	1.16
Apr-15	0.20	Oct-16	1.24

Interest Rate Outlook – Graphic Portrayal

MTSU Baseline Interest Rate Forecast



Interest Rate Forecasts

Money Market Rates

	2013				2014				2015				Annual Averages		
	I(A) 2012	II(A) 2012	III(A) 2012	IV(E) 2012	I(E) 2013	II(E) 2013	III(E) 2013	IV(E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	2013	2014	2015
1 Federal Funds	0.14	0.12	0.08	0.09	0.09	0.15	0.19	0.22	0.24	0.24	0.28	0.39	0.11	0.16	0.29
Commercial Paper															
2 1-Month	0.11	0.07	0.05	0.09	0.16	0.28	0.34	0.39	0.45	0.49	0.55	0.67	0.08	0.29	0.54
3 3-Month	0.13	0.09	0.07	0.11	0.22	0.34	0.40	0.46	0.52	0.56	0.61	0.74	0.10	0.36	0.61
4 6-Month	0.16	0.11	0.09	0.13	0.25	0.37	0.44	0.49	0.56	0.60	0.66	0.78	0.12	0.39	0.65
Finance Paper															
5 1-Month	0.11	0.09	0.07	0.10	0.17	0.29	0.36	0.41	0.47	0.51	0.56	0.68	0.09	0.31	0.55
6 3-Month	0.13	0.11	0.09	0.12	0.22	0.34	0.40	0.46	0.52	0.56	0.62	0.74	0.11	0.36	0.61
7 6-Month	0.16	0.15	0.12	0.13	0.24	0.36	0.44	0.49	0.54	0.57	0.63	0.75	0.14	0.38	0.62
Treasury Bills															
8 1-Month	0.09	0.05	0.03	0.07	0.09	0.17	0.21	0.26	0.28	0.30	0.34	0.45	0.06	0.18	0.34
9 3-Month	0.11	0.09	0.06	0.10	0.12	0.20	0.26	0.31	0.36	0.40	0.47	0.60	0.09	0.22	0.46
Negotiable CDs															
10 1-Month	0.18	0.17	0.16	0.18	0.22	0.34	0.39	0.43	0.47	0.51	0.56	0.66	0.17	0.35	0.55
11 3-Month	0.22	0.20	0.19	0.21	0.24	0.37	0.44	0.51	0.54	0.58	0.65	0.77	0.20	0.39	0.64
12 6-Month	0.28	0.26	0.26	0.27	0.31	0.41	0.46	0.52	0.58	0.63	0.69	0.83	0.27	0.42	0.68
Eurodollar Deposit															
13 1-Month	0.24	0.22	0.22	0.23	0.25	0.35	0.41	0.44	0.47	0.50	0.55	0.65	0.23	0.36	0.54
14 3-Month	0.29	0.28	0.28	0.28	0.30	0.41	0.47	0.52	0.56	0.59	0.65	0.76	0.28	0.43	0.64
15 6-Month	0.47	0.42	0.42	0.42	0.43	0.52	0.57	0.61	0.65	0.70	0.76	0.88	0.43	0.53	0.75
16 Prime Rate	3.25	3.25	3.25	3.20	3.09	3.15	3.19	3.22	3.24	3.24	3.28	3.39	3.24	3.16	3.29

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp
A = Actual; E = Forecast

November 22, 2013

Interest Rate Forecasts

Capital Market Rates

	2013				2014				2015				Annual Averages		
	I(A) 2012	II(A) 2012	III(A) 2012	IV(E) 2012	I(E) 2013	II(E) 2013	III(E) 2013	IV(E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	2013	2014	2015
U.S. Treasury Notes and Bonds															
1-Yr Note	0.15	0.13	0.12	0.13	0.15	0.23	0.28	0.34	0.38	0.43	0.49	0.62	0.13	0.25	0.48
2-Yr Note	0.27	0.27	0.37	0.31	0.31	0.42	0.54	1.02	1.59	1.84	1.94	2.11	0.30	0.57	1.87
5-Yr Note	0.83	0.92	1.51	1.38	1.36	1.41	1.47	1.75	2.07	2.24	2.34	2.48	1.16	1.50	2.28
10-Yr Note	1.95	2.00	2.71	2.70	2.73	2.77	2.82	2.97	3.15	3.27	3.36	3.46	2.34	2.82	3.31
30-Yr Note	3.14	3.15	3.72	3.78	3.85	3.88	3.92	3.98	4.06	4.12	4.18	4.25	3.45	3.91	4.15
Other Bonds															
AAA Bonds	3.88	3.96	4.51	4.61	4.58	4.59	4.61	4.74	4.90	5.00	5.08	5.18	4.24	4.63	5.04
BAA Bonds	4.81	4.84	5.40	5.38	5.40	5.44	5.49	5.64	5.82	5.94	6.03	6.14	5.11	5.49	5.98
State and Local	3.76	3.97	4.72	4.57	4.39	4.33	4.32	4.43	4.57	4.66	4.74	4.83	4.26	4.37	4.70
Mortgage Rates - Primary Mkt															
30-Yr (FHLMC - PMMS)	2.93	3.19	3.45	3.66	3.85	4.00	4.14	4.33	4.55	4.75	4.96	5.16	3.31	4.08	4.86
15-Yr (FHLMC - PMMS)	1.67	1.89	2.33	2.55	2.63	2.75	2.93	3.19	3.49	3.80	4.11	4.41	2.11	2.87	3.95
ARM (FHLMC - PMMS)	2.61	2.59	2.66	2.61	2.54	2.54	2.52	2.52	2.52	2.53	2.57	2.68	2.62	2.53	2.57
30-Yr (FLHMC Req Net Yield)	3.50	3.66	4.44	4.27	4.35	4.43	4.51	4.69	4.89	5.02	5.12	5.24	3.97	4.50	5.07
15-Yr (FHLMC Req Net Yield)	2.74	2.85	3.48	3.28	3.22	3.22	3.25	3.48	3.76	3.90	3.97	4.07	3.09	3.29	3.93

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp
A = Actual; E = Forecast

November 22, 2013

The Tennessee Cycle in Perspective

Personal Income

- Tennessee personal income (measured by 4-quarter moving growth rates) moves in line with U.S. personal income growth.

Employment

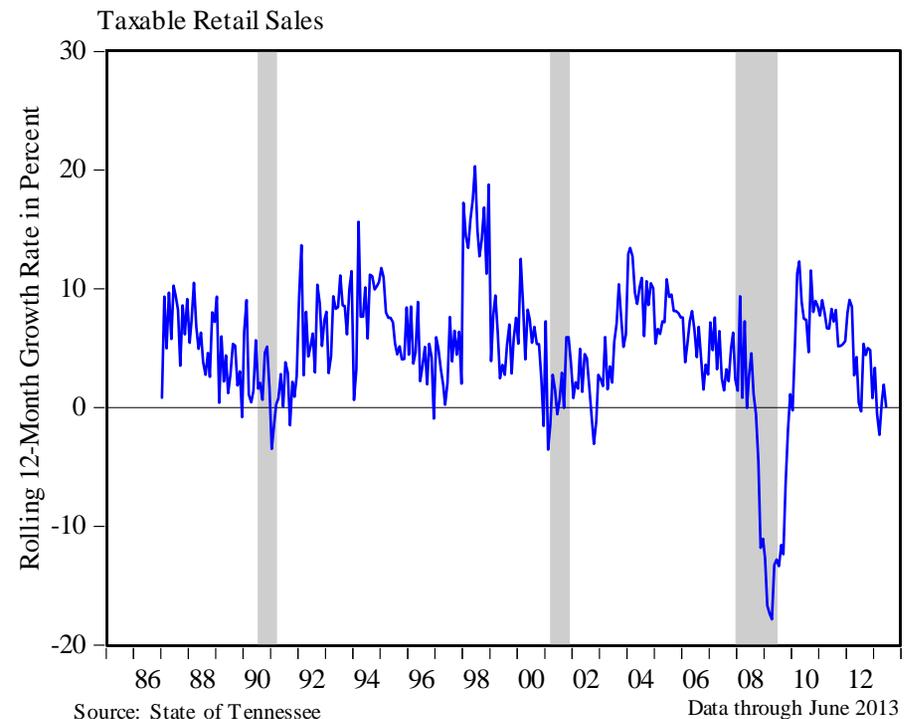
- Tennessee employment (measured by 4-quarter moving growth rates) moves roughly in line with U.S. employment growth.

Housing

- Tennessee building permits moves in line with U.S. housing starts, adjusted for differences in scale

Retail (Taxable) Sales

- See graph to the right.



shaded are represents recession period

Baseline Economic Outlook

Economics Outlook for Tennessee

	2013				2014				2015				Year-over-Year Growth		
	I(A) 2013	II(A) 2013	III(E) 2012	IV(A/E) 2013	I(E) 2014	II(E) 2014	III(E) 2014	IV(E) 2014	I(E) 2015	II(E) 2015	III(E) 2015	IV(E) 2015	2013	2014	2015
National Trends															
1 Civilian Employment (Mil.)	143.4	143.8	144.3	144.5	144.8	145.2	145.5	145.8	146.2	146.6	147.0	147.4	1.1	0.9	1.0
2 Change *	0.2	1.3	1.1	0.8	0.8	0.9	0.9	0.9	1.1	1.2	1.1	1.1			
3 Personal Income	13925.9	14065.0	14197.7	14317.2	14461.7	14623.0	14778.1	14940.4	15114.9	15294.1	15472.0	15648.5	2.8	4.1	4.6
4 Change *	-4.1	4.1	3.8	3.4	4.1	4.5	4.3	4.5	4.8	4.8	4.7	4.6			
5 Income Per Employee (T)	97.135	97.779	98.422	99.058	99.853	100.729	101.577	102.464	103.387	104.313	105.231	106.151	1.7	3.1	3.6
6 Change *	-4.3	2.7	2.7	2.6	3.2	3.6	3.4	3.5	3.7	3.6	3.6	3.5			
7 Housing Starts (Mil. of Units)	0.957	0.869	0.887	1.066	0.987	1.007	0.976	1.138	1.218	1.364	1.408	1.486	14.6	6.7	34.9
8 Change *	30.1	-32.2	8.7	108.5	-26.6	8.5	-11.6	84.7	30.9	57.4	13.7	24.0			
Tennessee															
9 Nonagricultural Employment (T)	2752.8	2757.8	2747.8	2758.0	2764.1	2770.5	2777.2	2784.4	2792.3	2800.7	2808.8	2816.4	1.4	0.7	1.1
10 Change *	3.0	0.7	-1.4	1.5	0.9	0.9	1.0	1.0	1.1	1.2	1.2	1.1			
11 Personal Income	253.1	255.9	258.4	260.8	263.5	266.5	269.4	272.3	275.5	278.7	281.9	285.1	2.8	4.2	4.6
12 Change *	-3.4	4.5	4.0	3.8	4.2	4.6	4.3	4.5	4.7	4.8	4.7	4.6			
13 Dividends & Interest	35.1	36.0	36.8	37.4	37.9	38.4	38.8	39.3	39.8	40.4	40.9	41.4	4.6	6.4	5.2
14 Change *	-10.2	10.3	8.7	6.8	5.8	5.2	4.9	5.0	5.2	5.4	5.4	5.3			
15 Income Per Employee (T)	91.951	92.804	94.052	94.572	95.345	96.195	96.989	97.810	98.662	99.514	100.368	101.232	1.3	3.5	3.5
16 Change *	-6.2	3.8	5.5	2.2	3.3	3.6	3.3	3.4	3.5	3.5	3.5	3.5			
17 Retail Sales	97.5	95.5	96.9	98.1	99.6	101.3	102.6	104.0	105.5	107.0	108.5	110.1	1.0	5.0	5.7
18 Change *	1.8	-8.0	6.0	5.2	6.3	6.7	5.4	5.5	5.8	5.9	5.9	5.8			
19 Single-Family Building Permits (T)	15.065	16.385	16.807	18.364	19.125	19.067	18.547	19.676	19.354	20.244	20.135	20.943	22.5	9.0	5.3
20 Change *	6.0	39.9	10.7	42.5	17.6	-1.2	-10.5	26.7	-6.4	19.7	-2.1	17.1			
21 Total Building Permits (T)	19.342	23.774	24.559	28.971	26.000	26.303	25.275	26.859	26.405	27.568	27.479	28.301	22.8	6.4	4.6
22 Change *	-29.9	128.3	13.9	93.7	-35.1	4.7	-14.7	27.5	-6.6	18.8	-1.3	12.5			

Note: Except where noted, all data in billions of dollars.

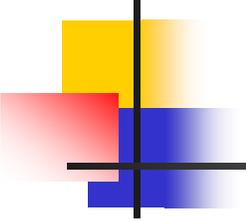
Historic sources: BEA, BLS, State of Tennessee

T=Thousands of units, persons, or dollars

December 1, 2013

A = Actual; E = Forecast

* Quarter-to-quarter percent changes expressed at compound annual rates.



Baseline Economic Outlook

Economic Assumptions—Fiscal Year Basis

	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	Forecasts			
											FY13-14	FY14-15	FY15-16	FY16-17
1 Personal Income (Bil \$)	177.5	186.6	195.8	206.3	215.9	217.9	220.5	231.2	243.9	253.4	262.3	274.0	286.8	299.7
2 Chg@	5.4	5.1	4.9	5.4	4.6	0.9	1.2	4.9	5.5	3.9	3.5	4.4	4.7	4.5
3 Nonagricultural Employment (Mil)	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.6	2.7	2.7	2.8	2.8	2.8	2.8
4 Chg@	0.5	1.6	1.6	0.8	0.4	-3.8	-3.5	1.3	2.2	1.8	0.7	1.0	1.1	1.0
5 Income Per Employee (Th \$)	66.257	68.527	70.769	73.965	77.067	80.810	84.761	87.780	90.619	92.498	95.044	98.247	101.676	105.221
6 Chg@	4.9	3.4	3.3	4.5	4.2	4.9	4.9	3.6	3.2	2.1	2.8	3.4	3.5	3.5
7 Retail Sales (Bil \$)	73.1	79.2	85.0	88.9	92.0	83.2	82.8	89.3	94.5	96.3	99.0	104.8	110.9	117.0
8 Chg@	9.1	8.3	7.4	4.5	3.5	-9.5	-0.5	8.0	5.8	1.9	2.8	5.8	5.8	5.6
9 Building Permits (Th of Units)	35.991	37.180	40.152	34.099	21.396	11.738	13.064	10.193	12.254	14.945	18.341	19.455	20.832	22.219
10 Chg@	19.1	3.3	8.0	-15.1	-37.3	-45.1	11.3	-22.0	20.2	22.0	22.7	6.1	7.1	6.7

Baseline Economic Outlook

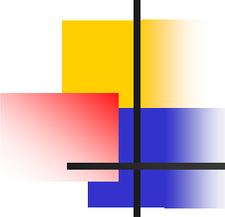
Baseline Revenue Projections

	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	Forecasts			
											FY13-14	FY14-15	FY15-16	FY16-17
11 Total Tax Revenue*	9,094.0	9,638.6	10,290.8	11,066.5	11,194.5	10,199.7	10,089.0	10,519.9	11,387.8	11,761.3	12,063.3	12,429.1	12,880.2	13,341.2
12 Chg@	7.6	6.0	6.8	7.5	1.2	-8.9	-1.1	4.3	8.2	3.3	2.6	3.0	3.6	3.6
13 Sales and Use Tax*	5,810.8	6,091.5	6,515.6	6,810.2	6,856.6	6,331.3	6,188.6	6,474.6	6,899.9	7,026.0	7,233.3	7,488.7	7,775.5	8,077.7
14 Chg@	6.4	4.8	7.0	4.5	0.7	-7.7	-2.3	4.6	6.6	1.8	3.0	3.5	3.8	3.9
15 Income Tax*	140.0	155.9	194.4	248.8	292.1	221.2	171.7	188.6	183.4	263.2	264.8	275.1	286.9	298.7
16 Chg@	36.0	11.4	24.7	28.0	17.4	-24.3	-22.4	9.8	-2.8	43.5	0.6	3.9	4.3	4.1
17 Gross Receipts Tax*	219.1	235.9	241.2	274.3	290.6	315.1	350.6	340.3	376.5	363.0	374.0	384.3	395.0	405.1
18 Chg@	1.2	7.6	2.2	13.7	6.0	8.4	11.3	-2.9	10.6	-3.6	3.0	2.8	2.8	2.6
19 Excise plus Franchise Taxes*	1,197.8	1,372.0	1,491.6	1,749.1	1,650.4	1,368.7	1,423.6	1,518.4	1,856.5	2,026.0	2,088.8	2,151.6	2,268.1	2,371.0
20 Chg@	11.8	14.5	8.7	17.3	-5.6	-17.1	4.0	6.7	22.3	9.1	3.1	3.0	5.4	4.5
21 Gasoline Tax*	599.3	608.1	605.6	612.8	616.8	601.3	607.1	624.2	617.6	616.3	610.0	611.9	615.6	618.5
22 Chg@	-0.1	1.5	-0.4	1.2	0.7	-2.5	1.0	2.8	-1.0	-0.2	-1.0	0.3	0.6	0.5
23 Vehicle Registration*	238.5	244.2	249.5	259.9	253.7	241.3	239.4	246.0	246.8	255.6	260.6	265.7	271.6	277.6
24 Chg@	6.0	2.4	2.2	4.1	-2.4	-4.9	-0.8	2.7	0.3	3.6	2.0	2.0	2.2	2.2
25 Fuel Tax*	167.7	173.7	180.7	185.7	182.4	154.8	154.6	157.6	160.9	156.9	166.0	167.6	170.5	173.0
26 Chg@	7.9	3.5	4.0	2.8	-1.8	-15.1	-0.1	1.9	2.1	-2.4	5.8	0.9	1.7	1.5
27 Privilege Tax*	246.1	264.9	304.9	350.7	314.2	255.6	247.6	251.5	280.9	304.3	343.1	355.9	364.1	373.6
28 Chg@	13.6	7.7	15.1	15.0	-10.4	-18.7	-3.1	1.6	11.7	8.3	12.7	3.7	2.3	2.6
29 All Other Taxes*	474.6	492.4	507.3	575.1	737.7	710.3	705.8	718.9	765.3	749.9	722.6	728.2	732.9	746.0
30 Chg@	18.1	3.7	3.0	13.4	28.3	-3.7	-0.6	1.8	6.5	-2.0	-3.6	0.8	0.6	1.8
Baseline Revenue Forecast	9,094.0	9,638.6	10,290.8	11,066.5	11,194.5	10,199.7	10,089.0	10,519.9	11,387.8	11,761.3	12,063.3	12,429.1	12,880.2	13,341.2
Chg@	7.6	6.0	6.8	7.5	1.2	-8.9	-1.1	4.3	8.2	3.3	2.6	3.0	3.6	3.6
Baseline w/o adjustments											12,033.6	12,443.5	12,983.8	13,539.7
Chg@											2.3	3.4	4.3	4.3
Consistency Check Forecast											12189.3	12700.6	13254.7	13809.2
Chg@											3.6	4.2	4.4	4.2

* Millions of dollars

@ Annual Percent Change

December 1, 2013



Alternative Forecasts

The first is the baseline forecast without adjustments

- The main difference from the baseline is that no adjustments are made to take account of where one year ends and the next begins

The second is the usual consistency model

- This is a top-down model where a few variables explain revenue growth

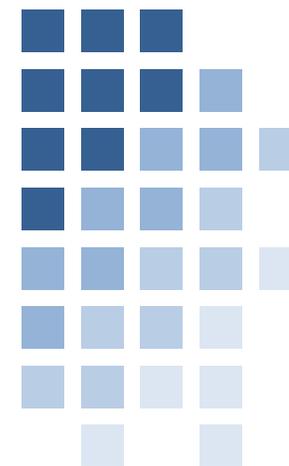
The baseline without adjustments follows the same pattern over the next two years as does the baseline

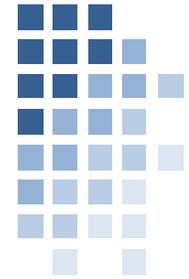
The consistency forecast shows stronger growth throughout the forecast horizon

Baseline Revenue Forecast	12,063.3	12,429.1	12,880.2	13,341.2
Chg@	2.6	3.0	3.6	3.6
Baseline w/o adjustments	12,033.6	12,443.5	12,983.8	13,539.7
Chg@	2.3	3.4	4.3	4.3
Consistency Check Forecast	12189.3	12700.6	13254.7	13809.2
Chg@	3.6	4.2	4.4	4.2

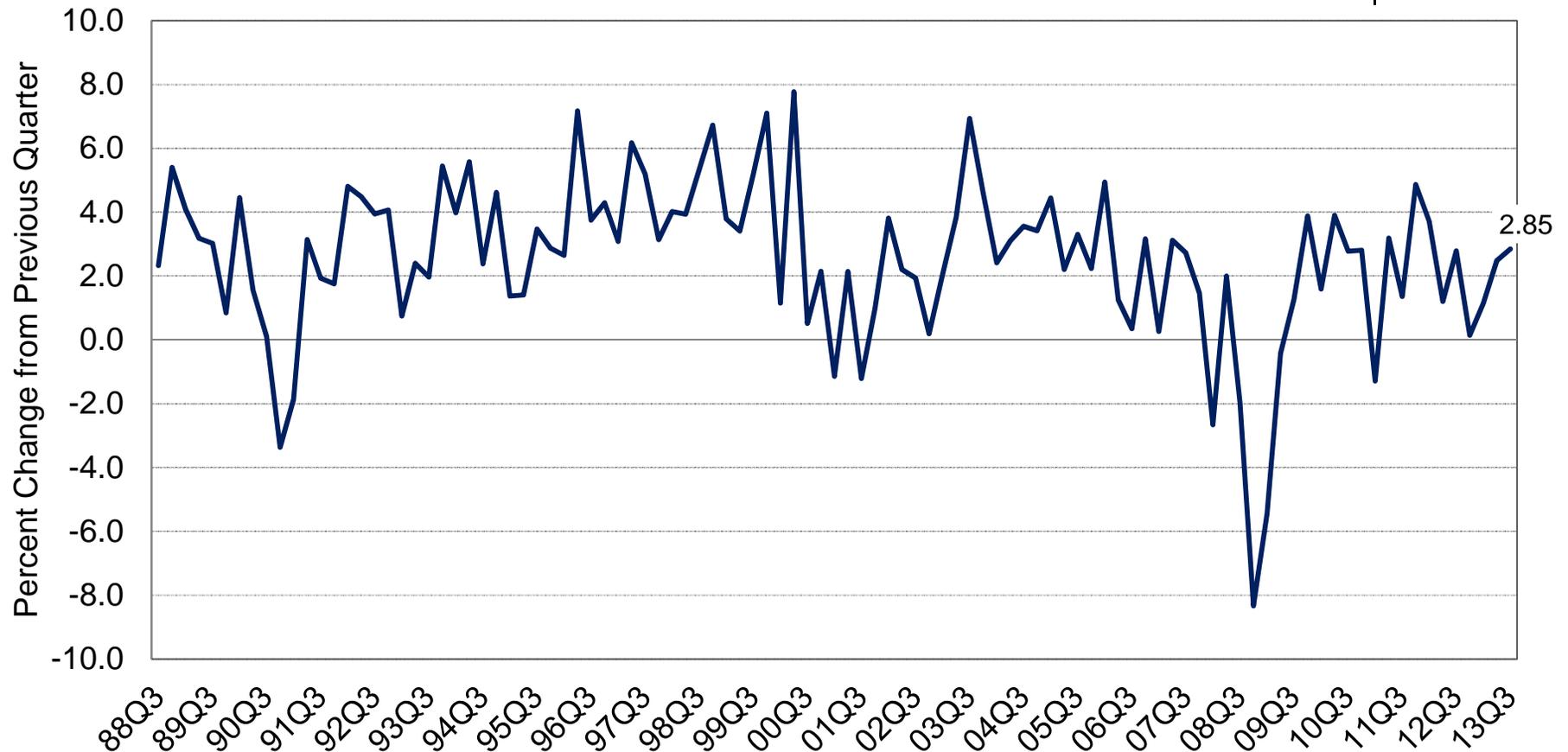
Tennessee Economic Outlook and Tax Revenues

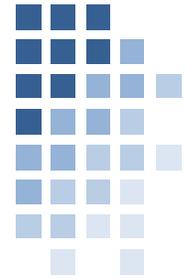
William F. Fox, Director
Center for Business and Economic Research
The University of Tennessee, Knoxville
December 10, 2013



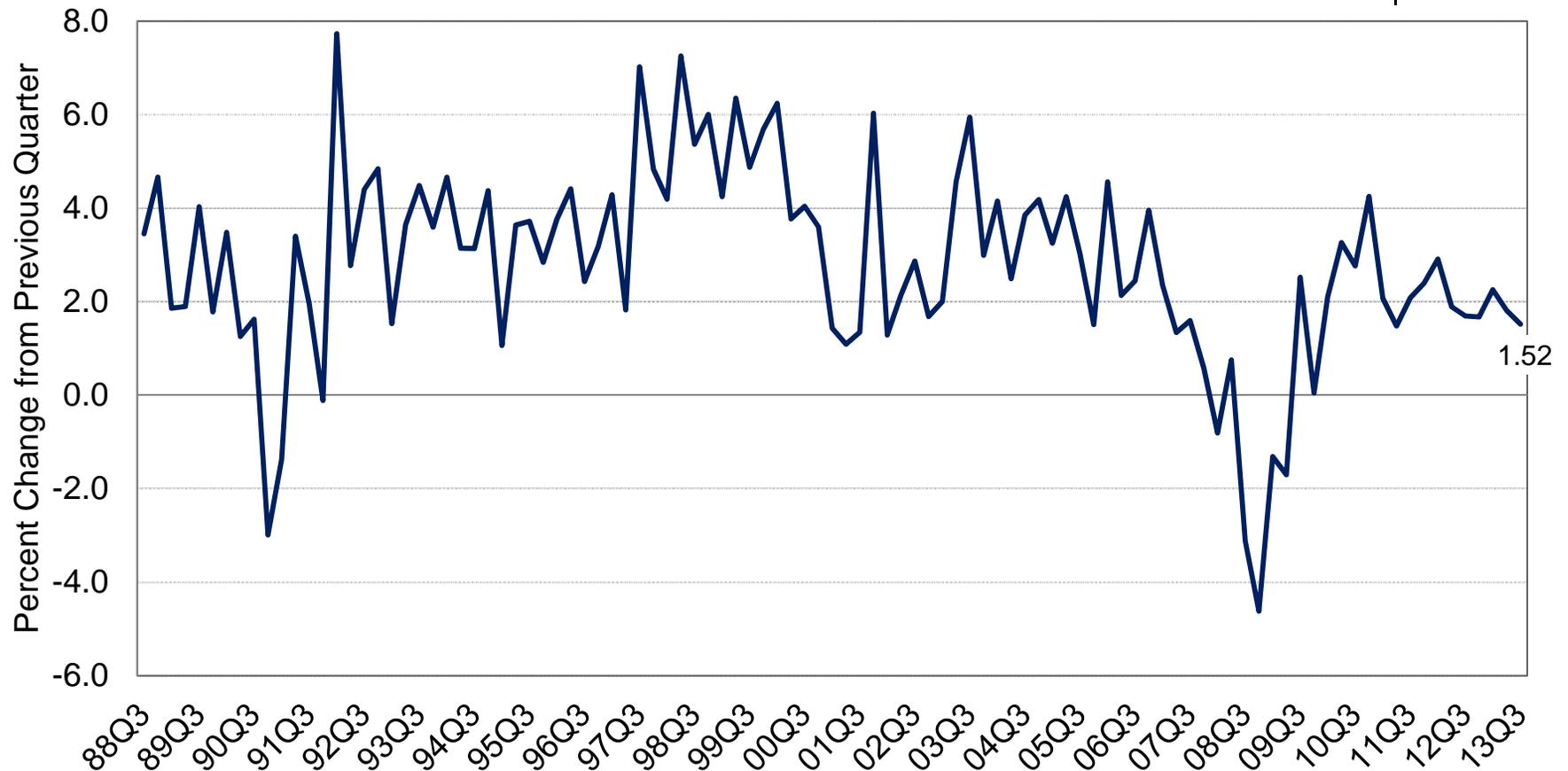


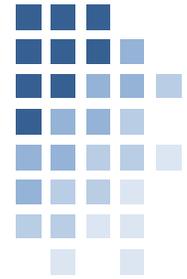
Growth in Quarterly Real Gross Domestic Product (chained 2009 dollars)





Growth in Quarterly Real Personal Consumption Expenditures (chained 2009 dollars)

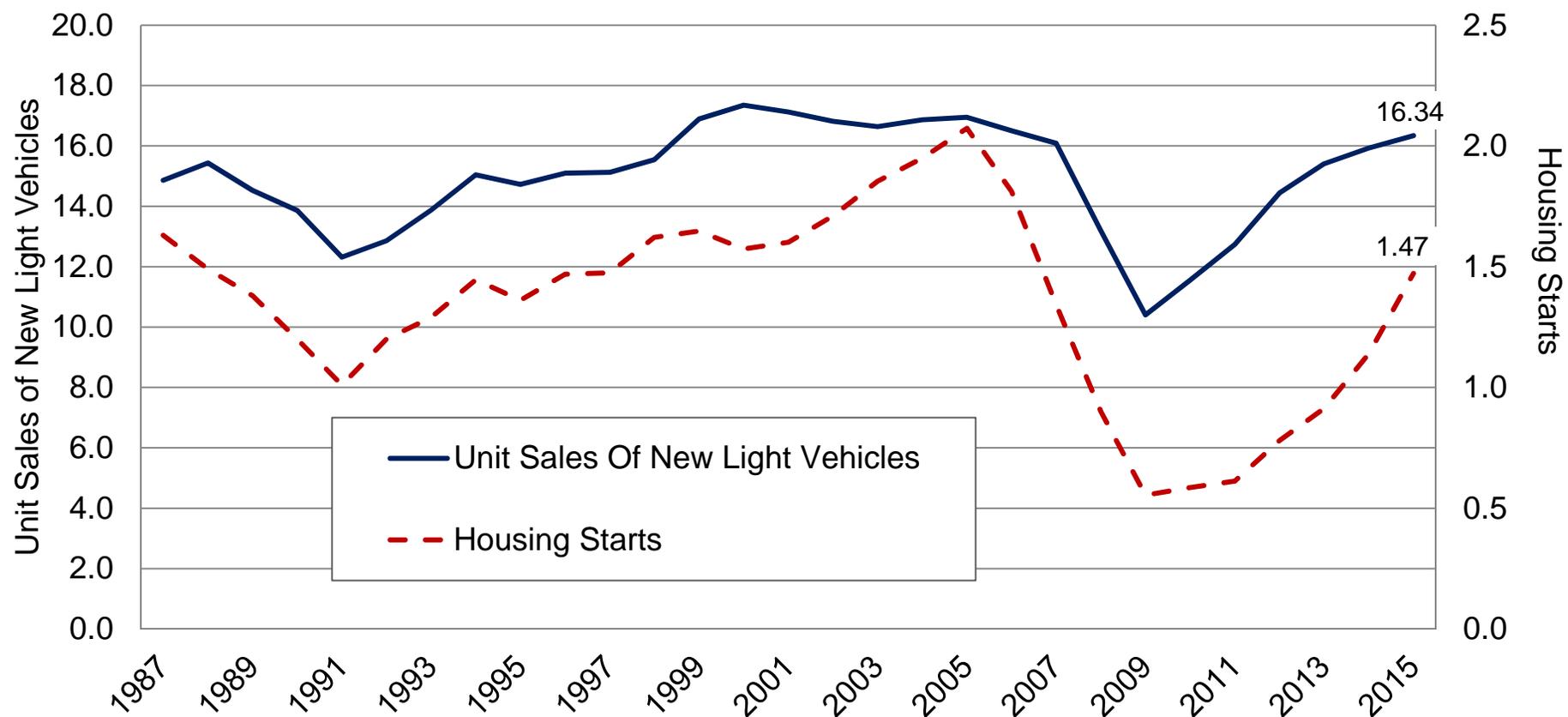
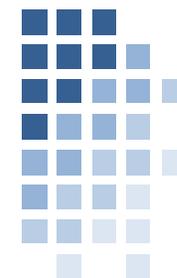




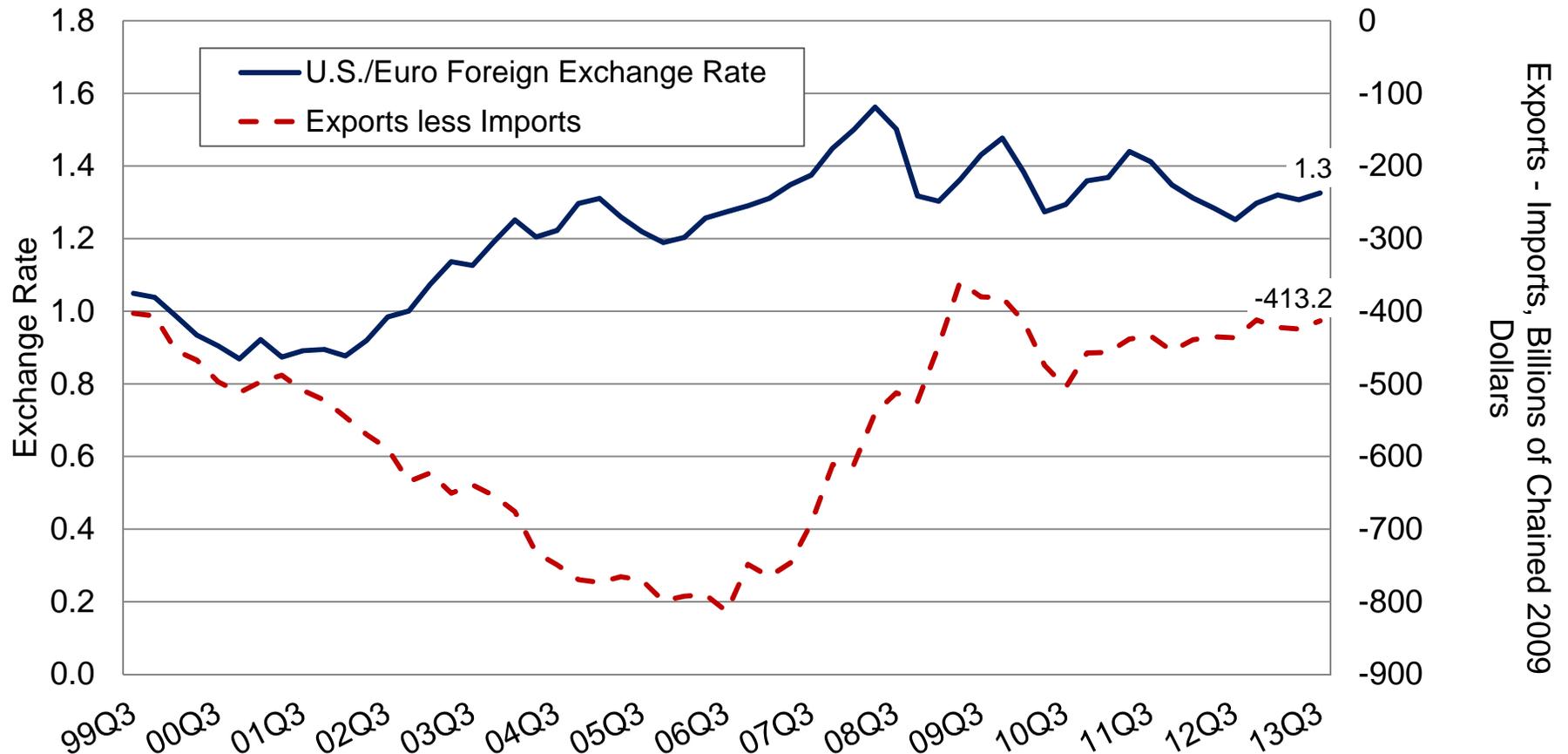
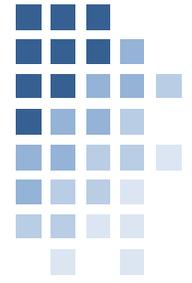
Growth in Quarterly Real Private Residential Fixed Investment and Housing Starts

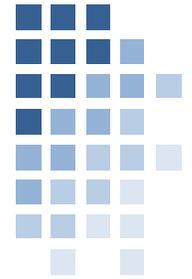


Unit Sales of New Light Vehicles and Housing Starts (millions)

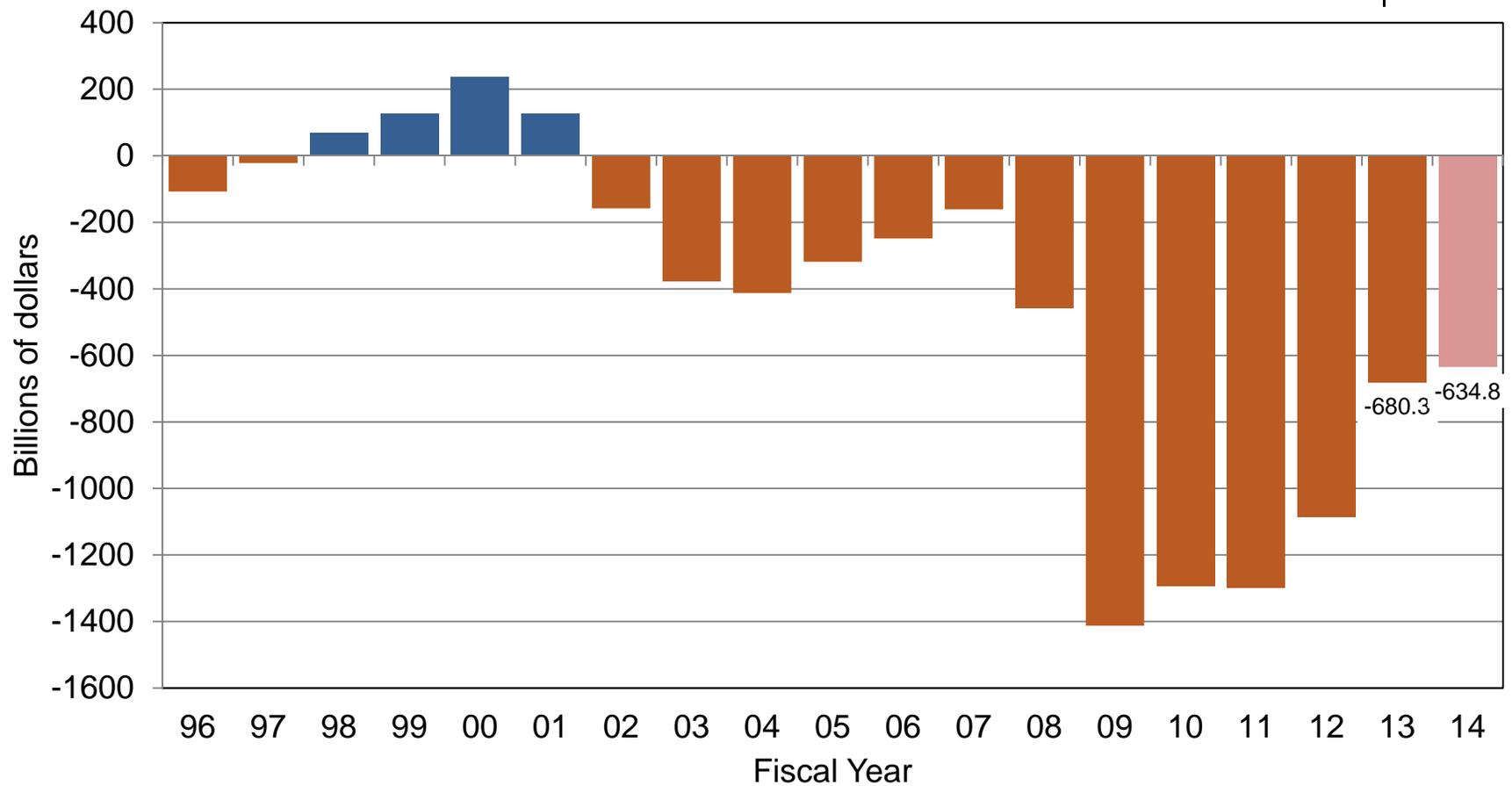


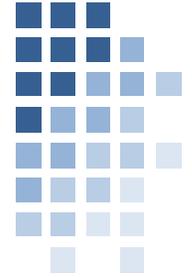
U.S./Euro Foreign Exchange Rate and Real Exports Less Imports



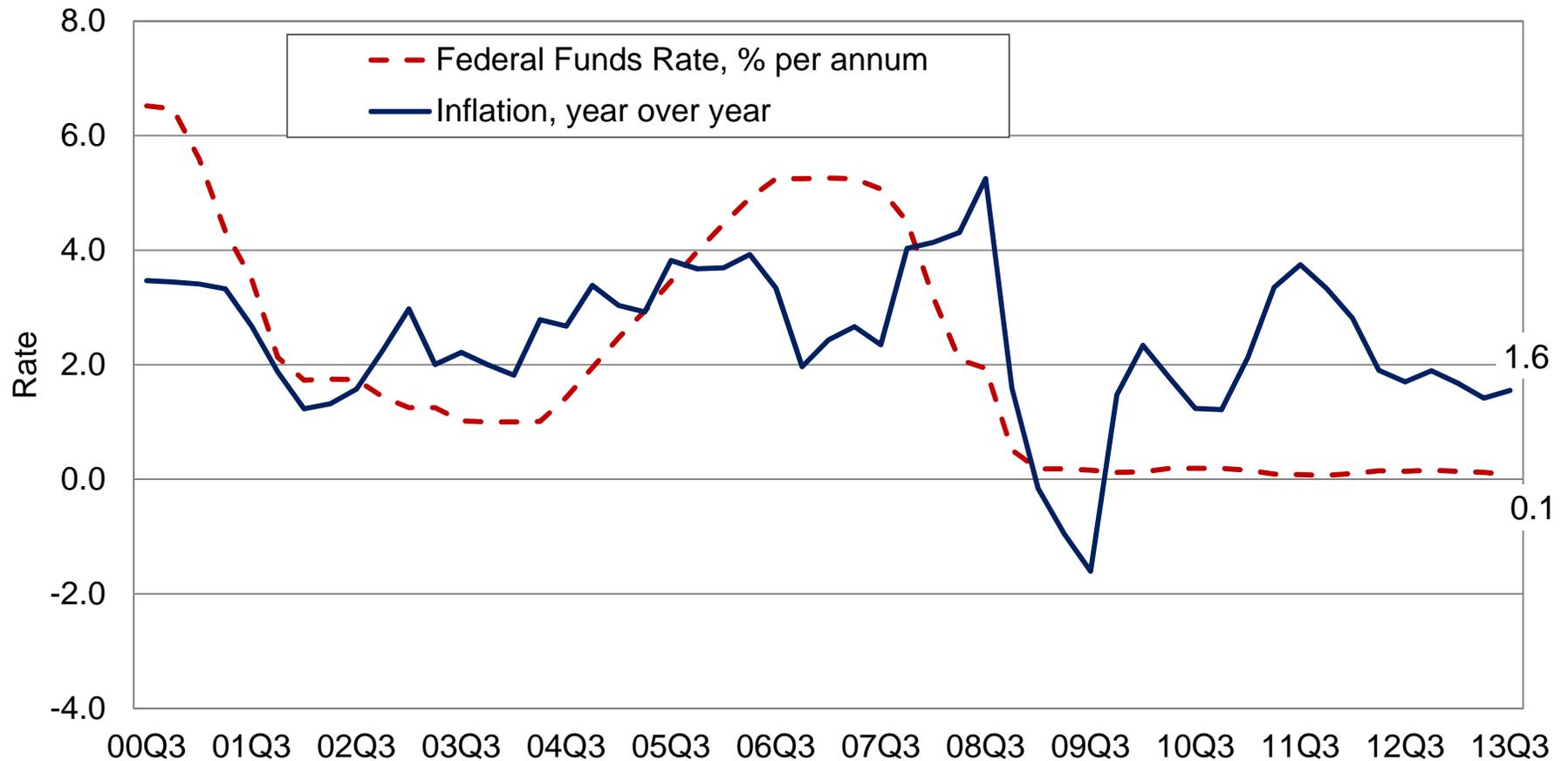


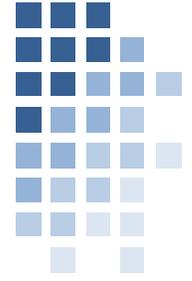
Unified Federal Budget Surplus



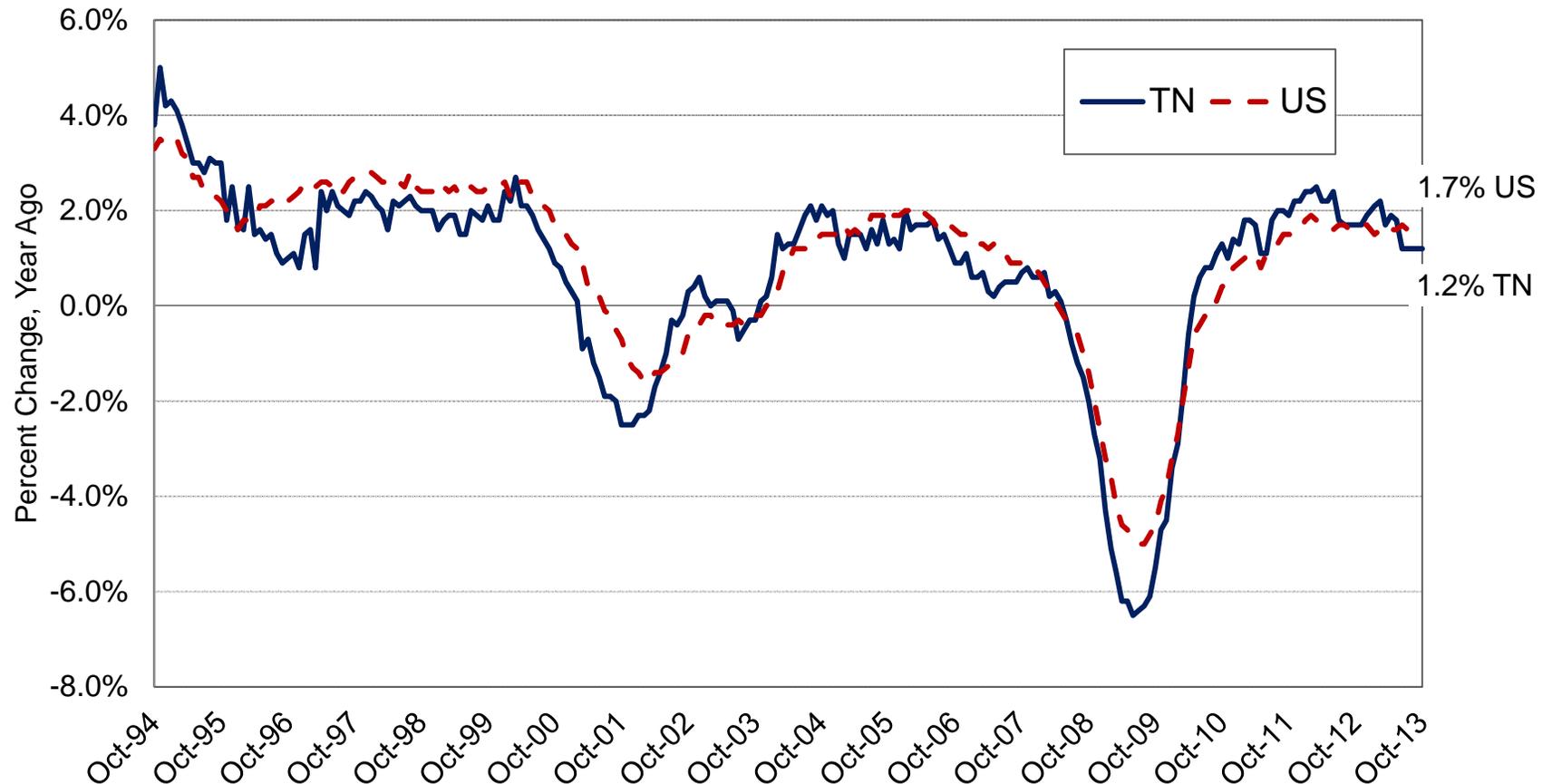


Interest Rates and Inflation

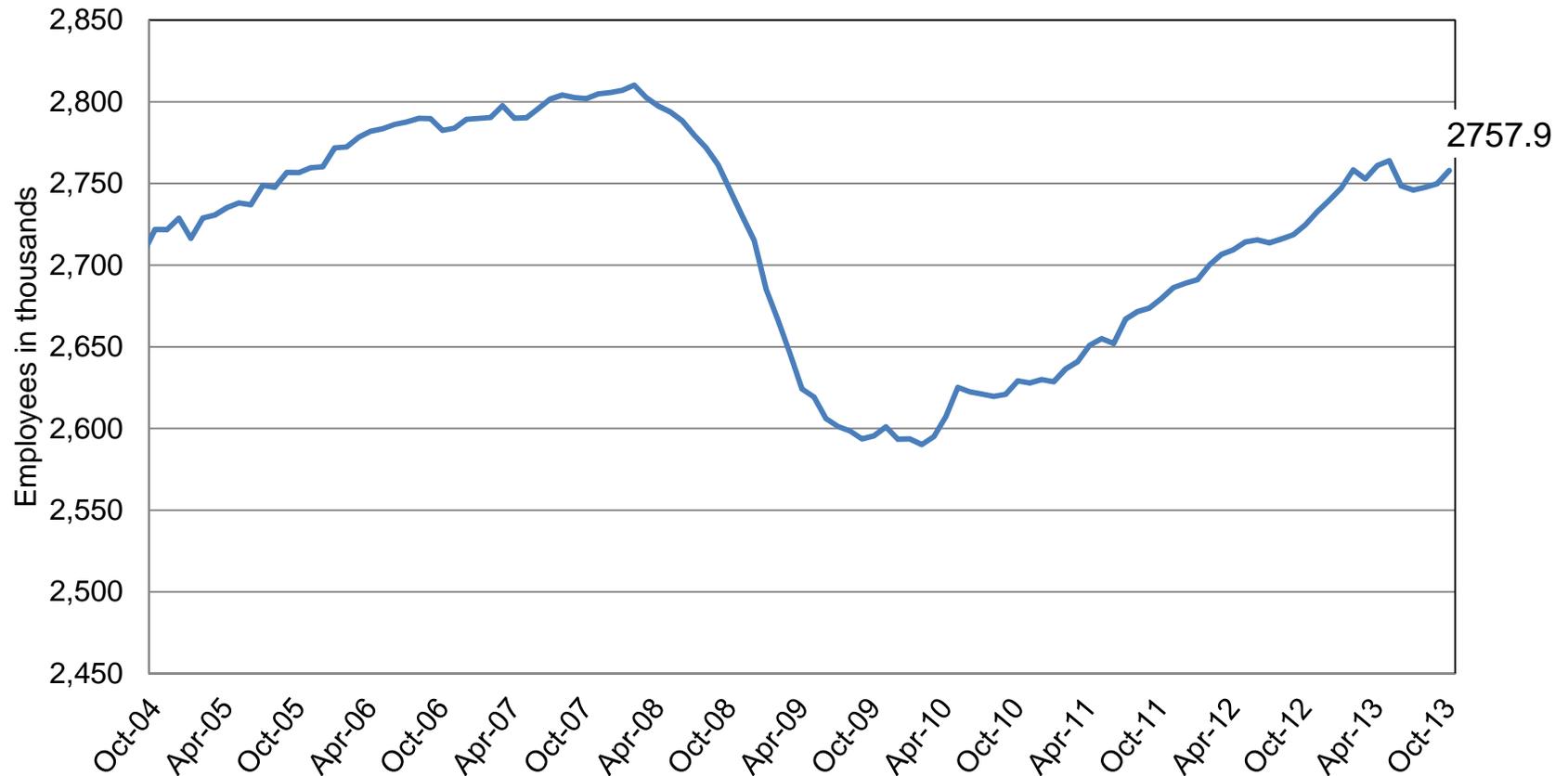
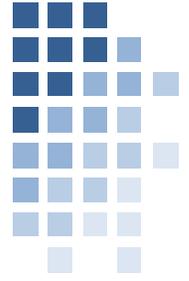


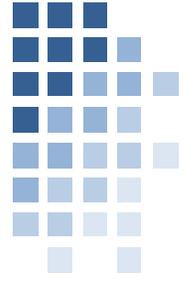


TN and U.S. Nonfarm Job Growth (year-over-year percentage change)

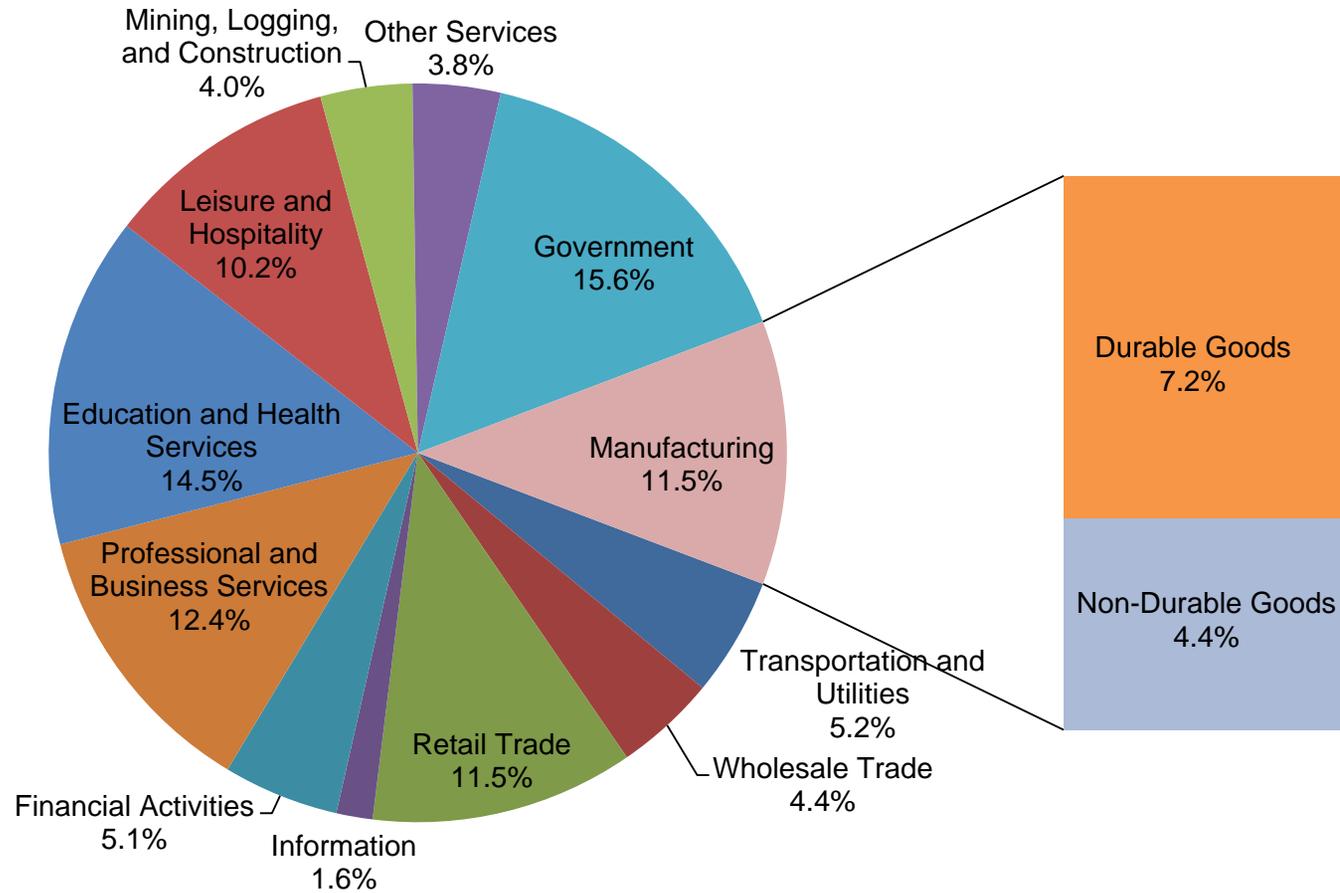


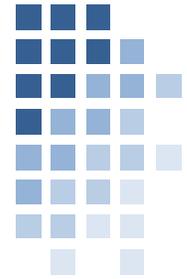
TN Monthly Nonfarm Jobs, 2004–2013 (seasonally adjusted)



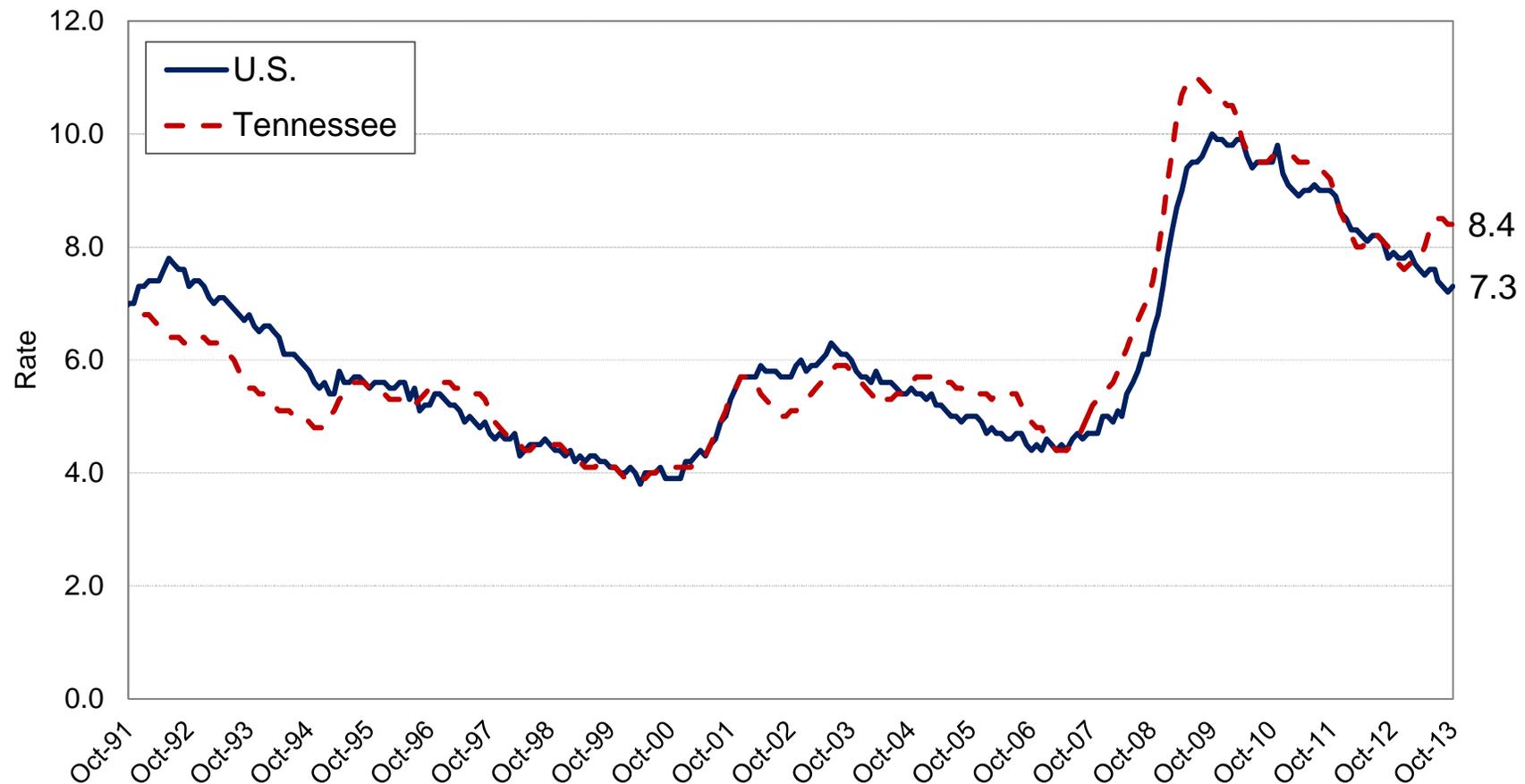


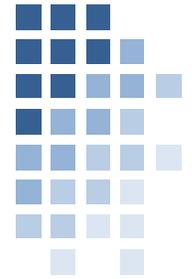
TN Employment Distribution by Industry, 2012



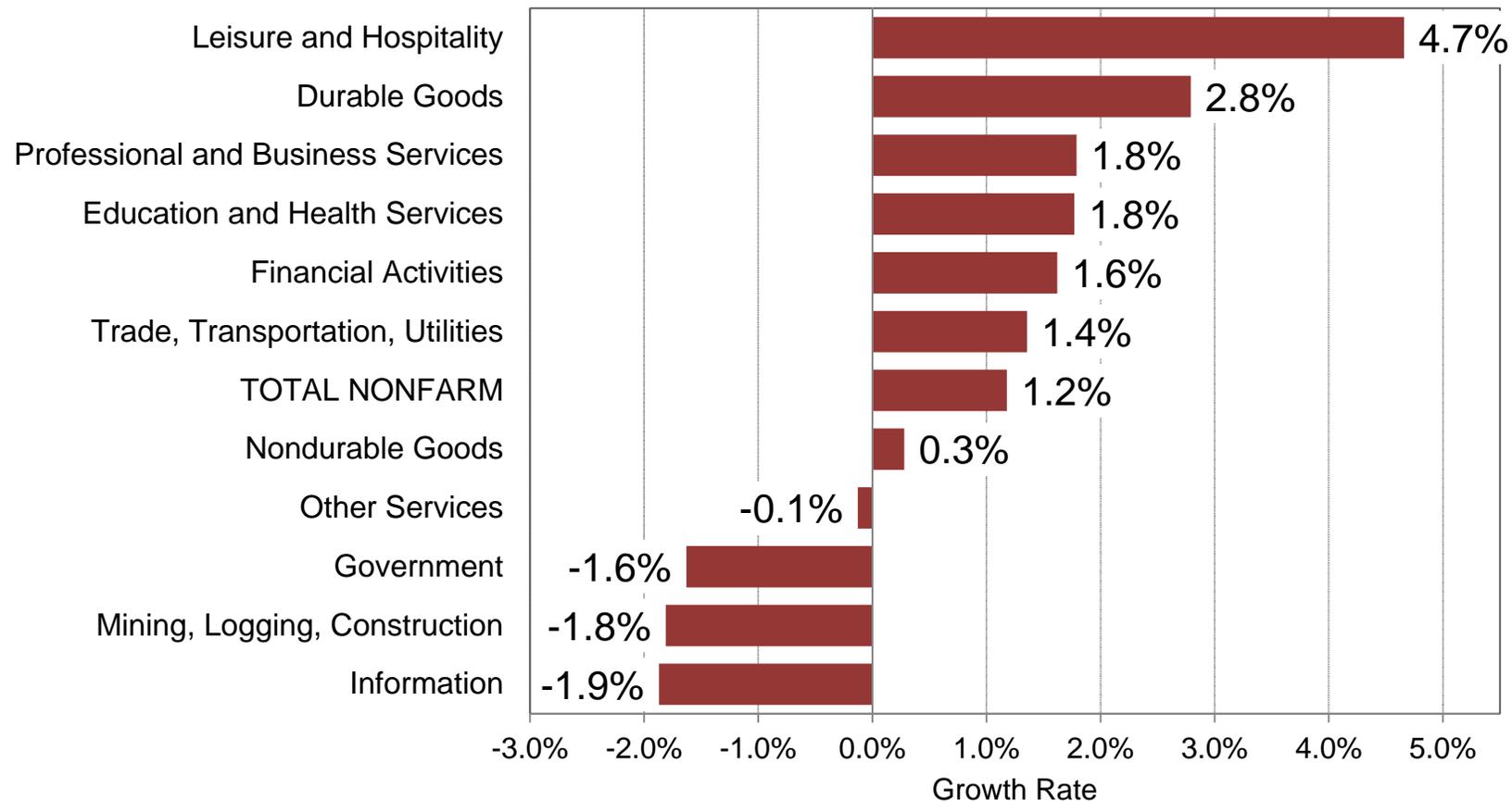


TN and U.S. Unemployment Rates (seasonally adjusted)

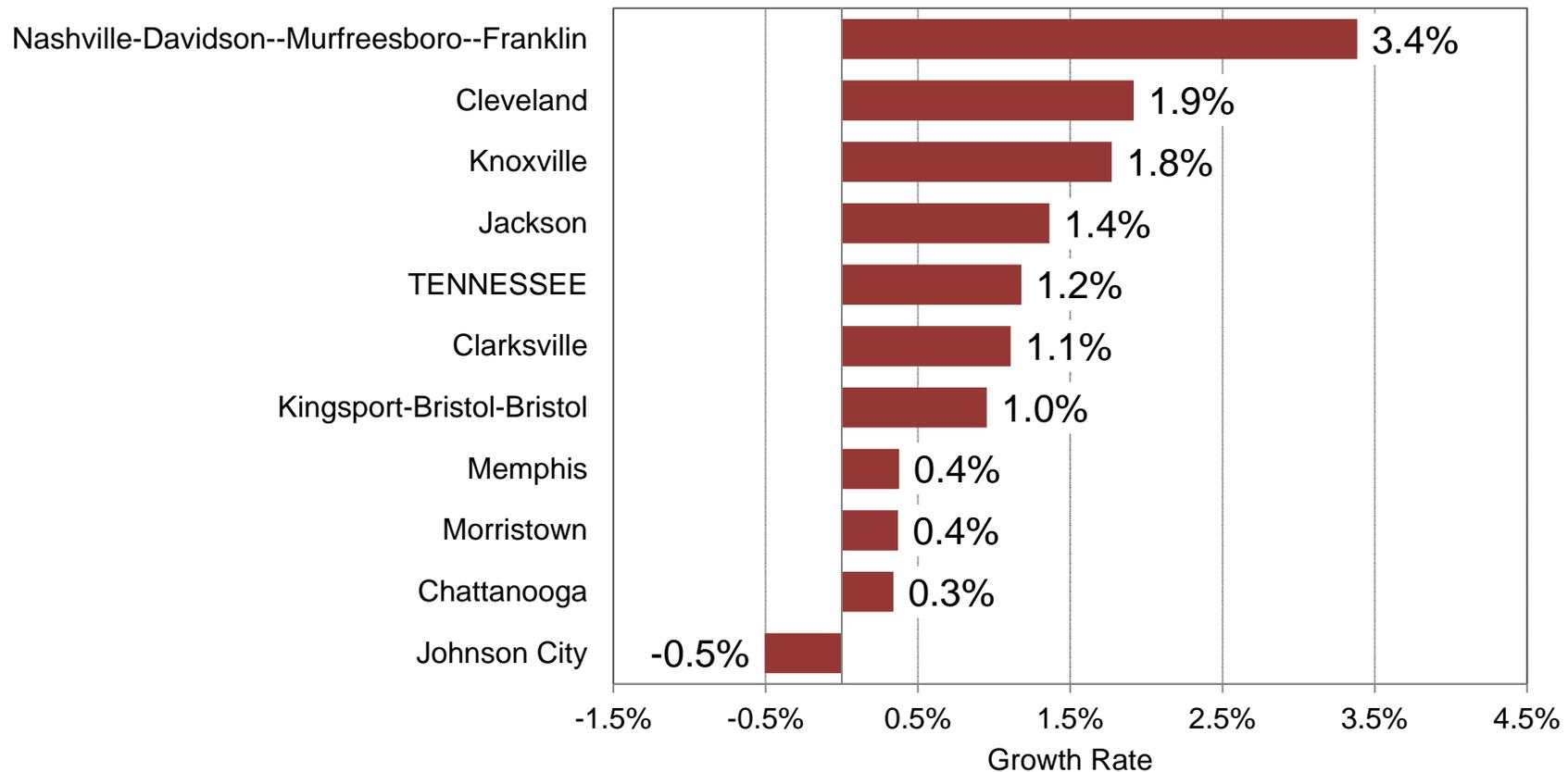
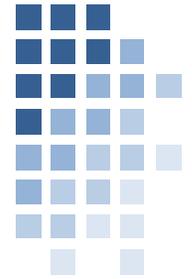


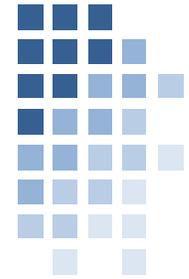


Tennessee Job Growth by Sector (Quarter Ending Oct 2012 to Oct 2013)

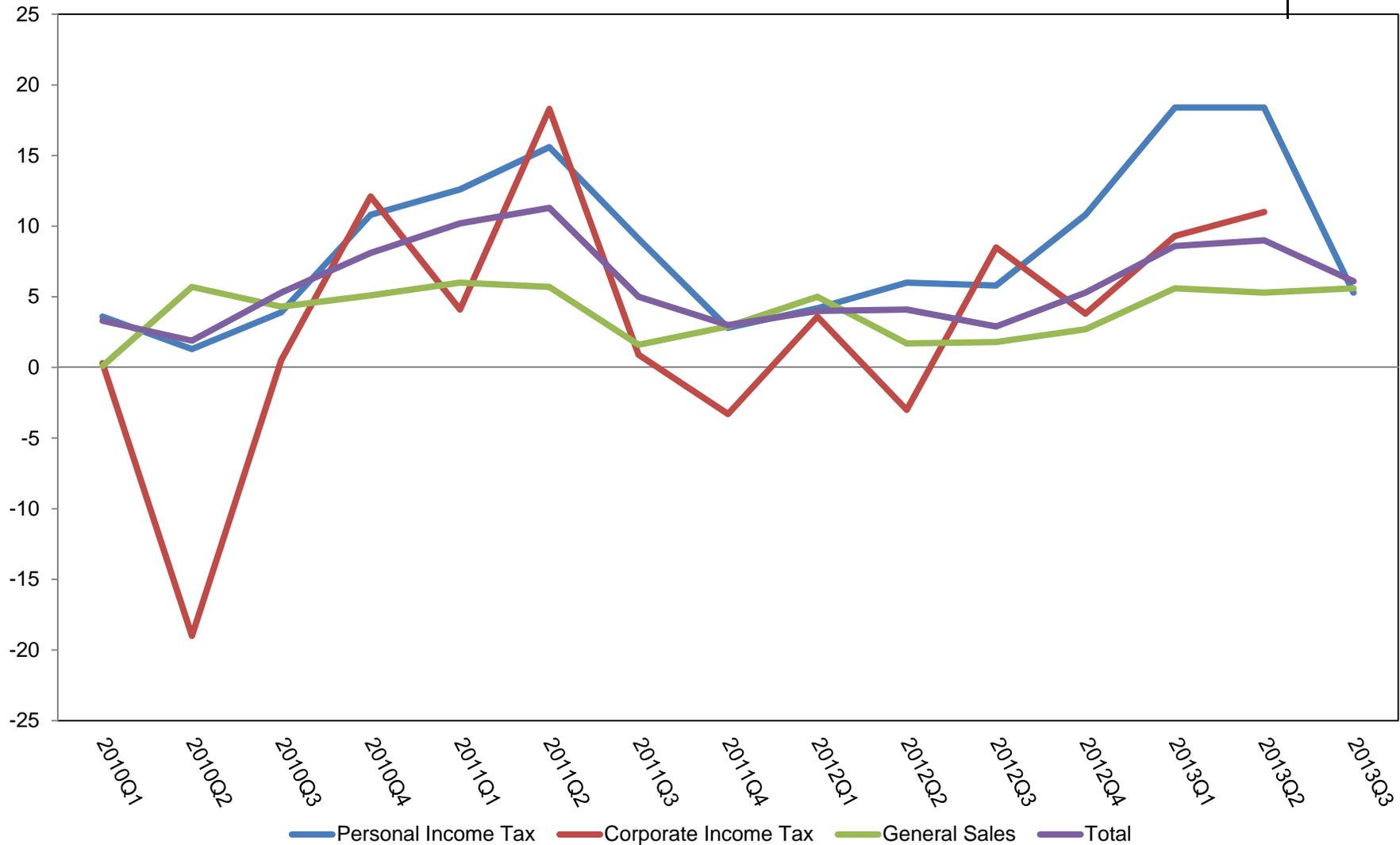


Nonfarm Employment Growth, MSAs (Quarter Ending Oct 2012 to Oct 2013)

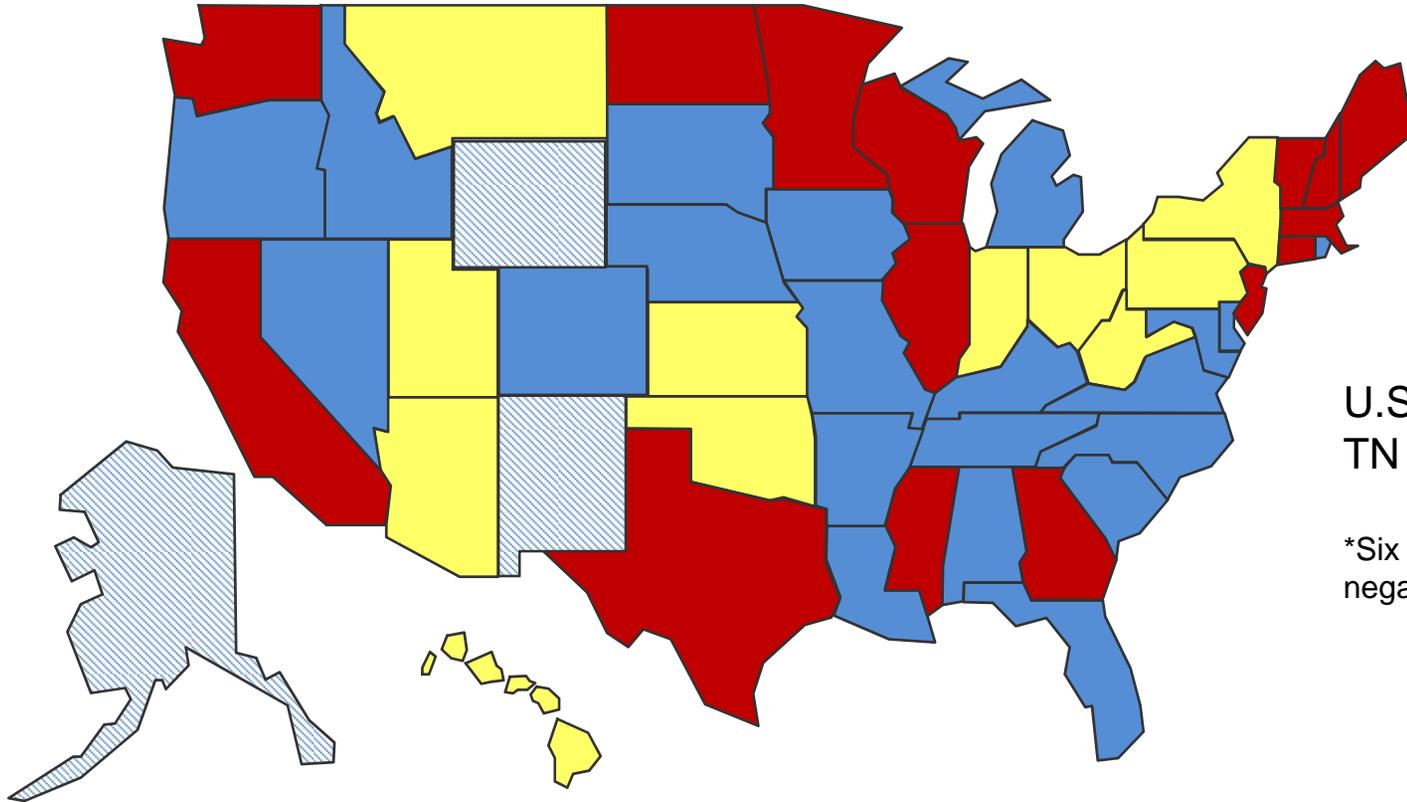
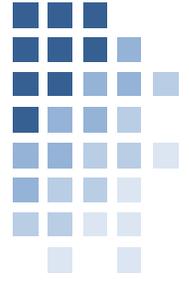




Quarterly State Tax Revenue by Major Tax Year-Over-Year % Change



Change in Total Taxes, July-September, 2012 to 2013



U.S. = 6.1%
TN = 2.1%

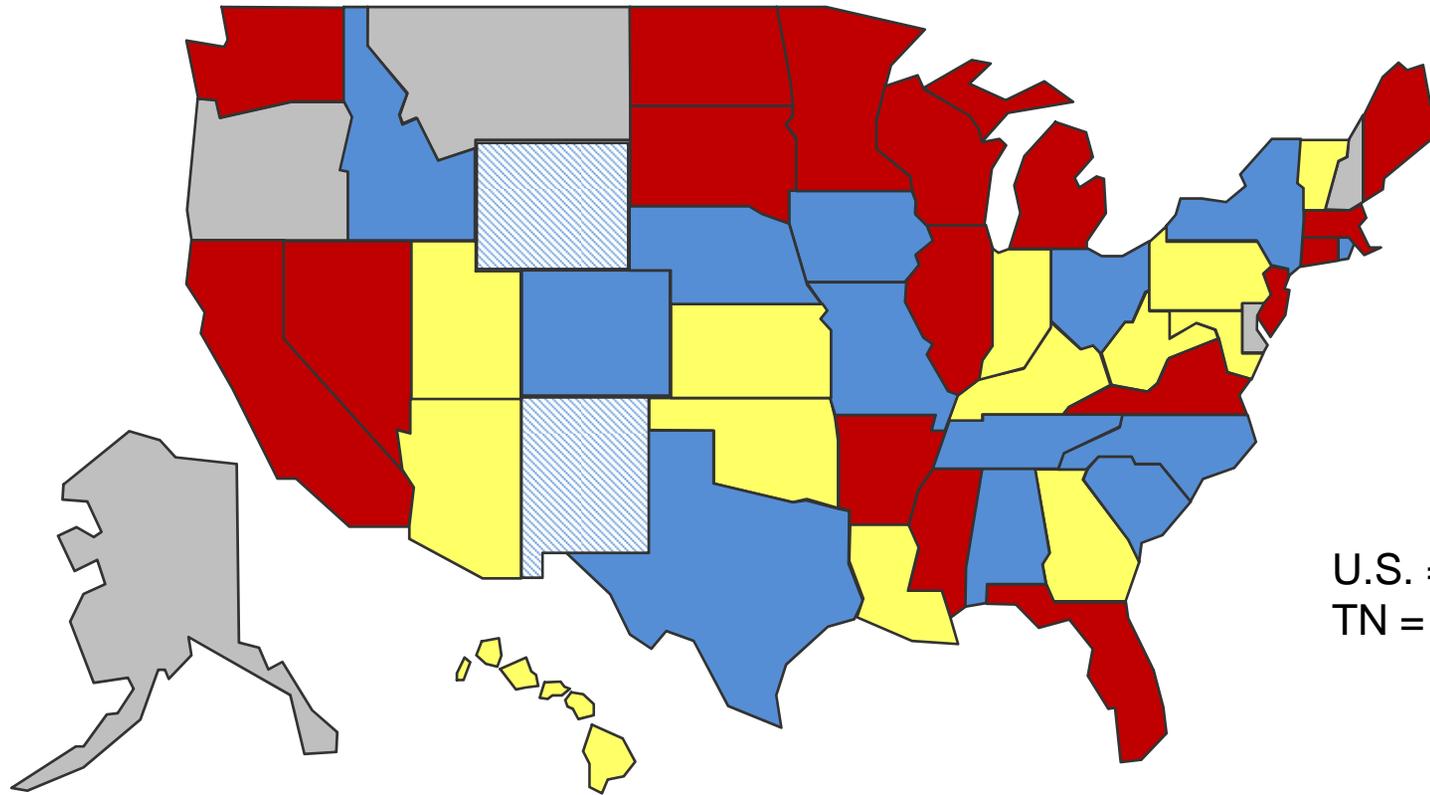
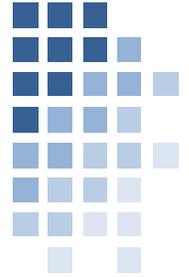
*Six states recorded
negative growth



December 10, 2013

William F. Fox, Center for Business and
Economic Research, <http://cber.bus.utk.edu>

Change in Sales Taxes, July-September, 2012 to 2013

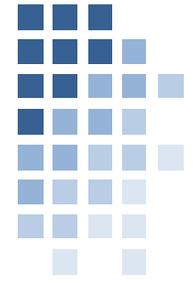


U.S. = 5.6%
TN = 3.6%

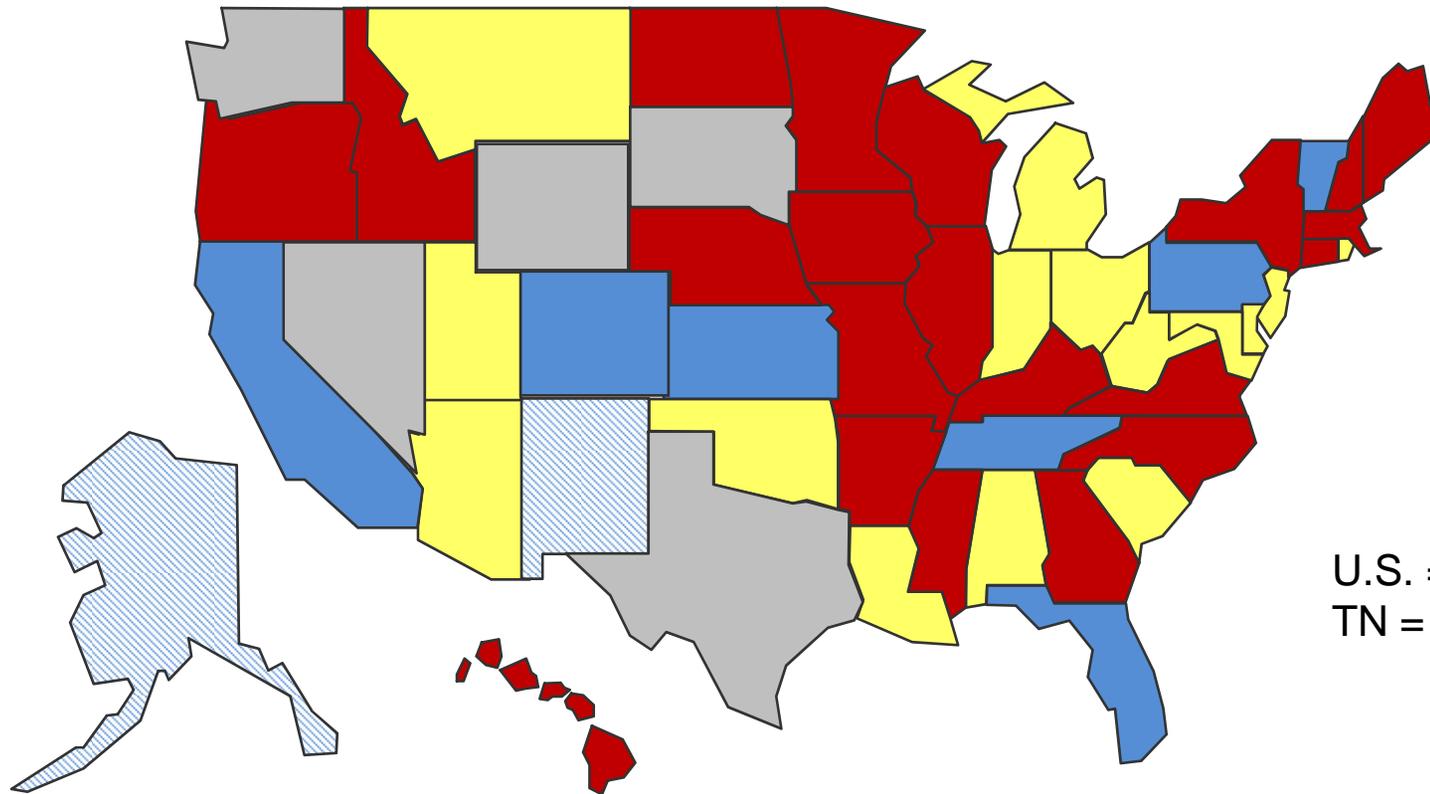


December 10, 2013

William F. Fox, Center for Business and
Economic Research, <http://cber.bus.utk.edu>



Change in Corporate Income Taxes, July-September, 2012 to 2013



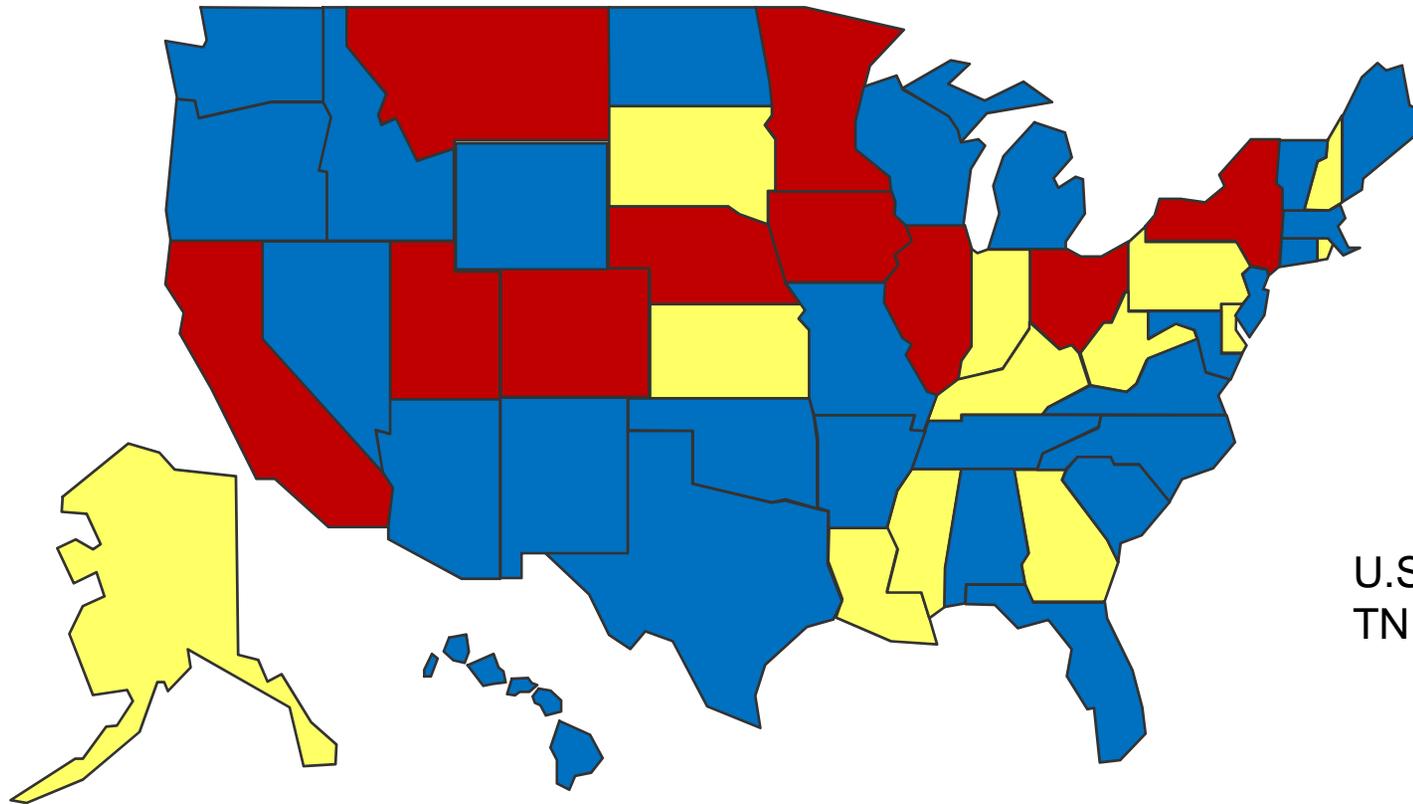
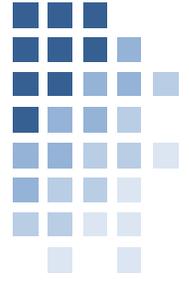
U.S. = 1.9%
TN = -6.0%



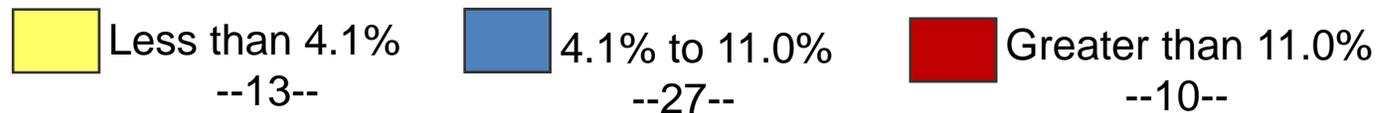
December 10, 2013

William F. Fox, Center for Business and
Economic Research, <http://cber.bus.utk.edu>

Change in Total Taxes, April-June, 2012 to 2013



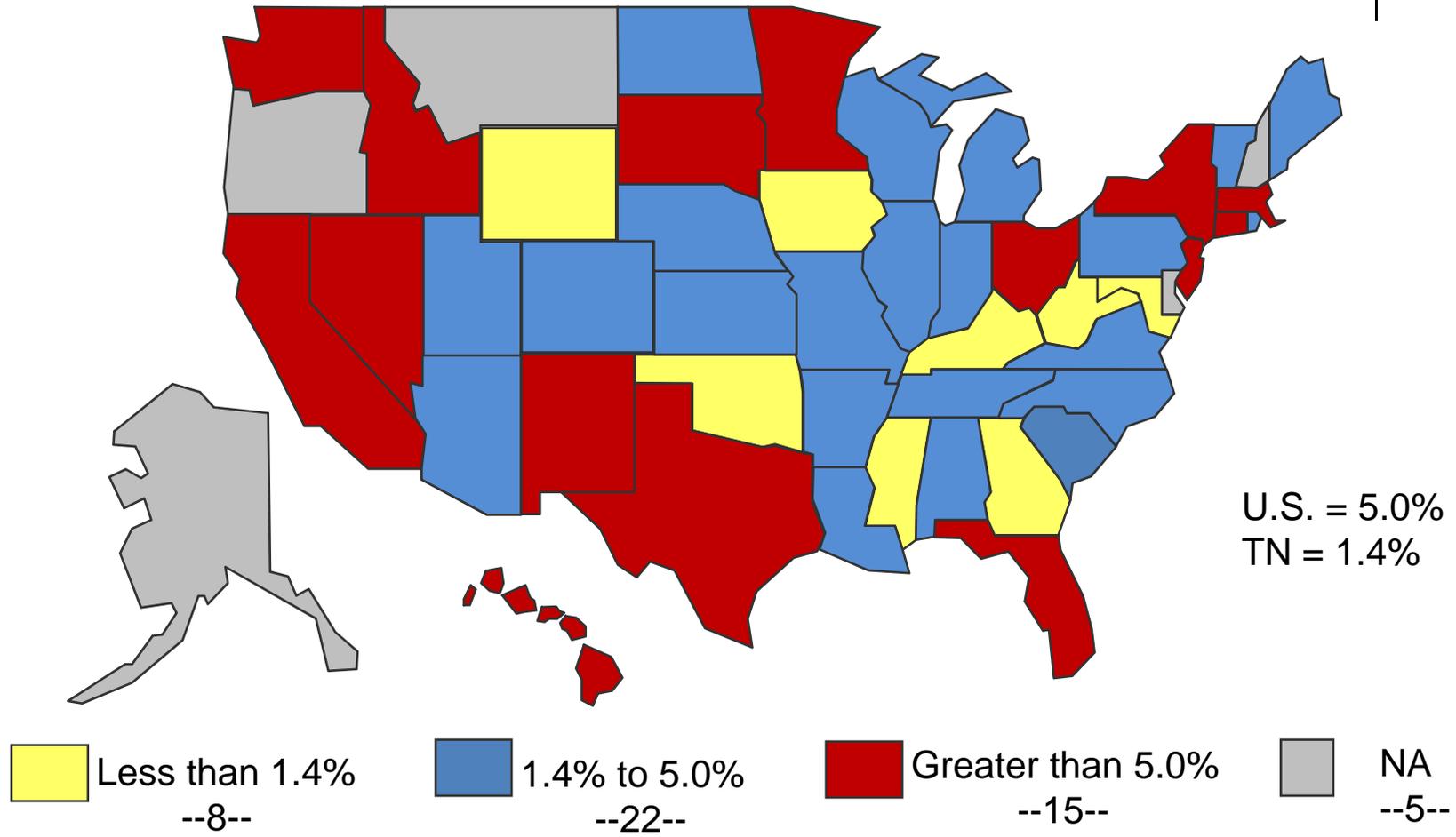
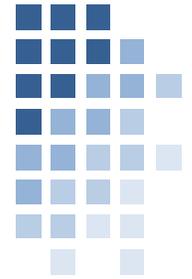
U.S. = 11.0%
TN = 4.1%

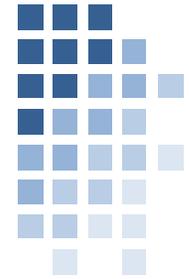


December 10, 2013

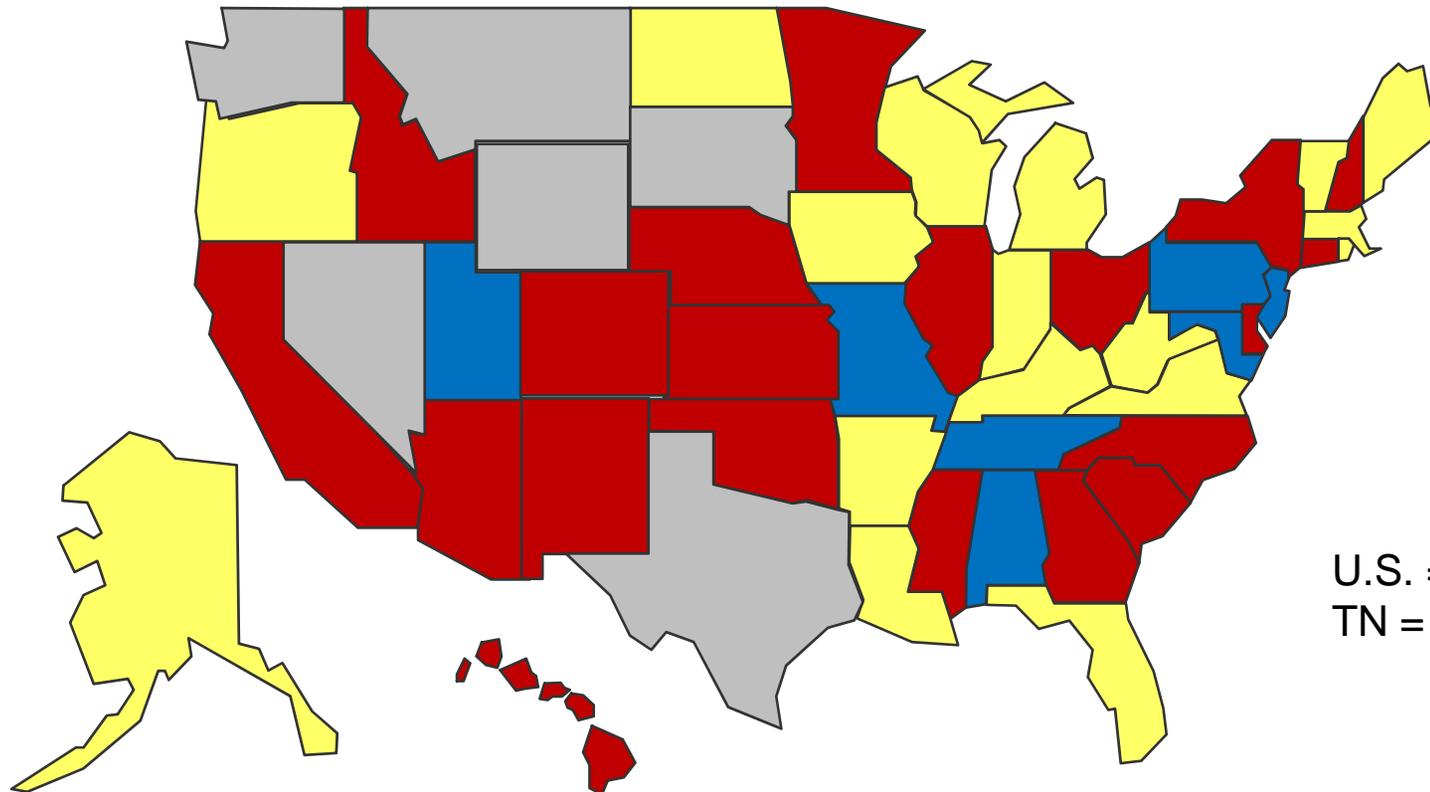
William F. Fox, Center for Business and
Economic Research, <http://cber.bus.utk.edu>

Change in Sales Taxes, April-June, 2012 to 2013





Change in Corporate Income Taxes, April-June, 2012 to 2013



U.S. = 7.1%
TN = 8.3%



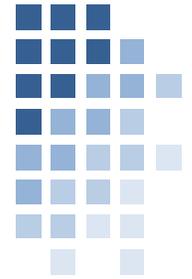
December 10, 2013

William F. Fox, Center for Business and
Economic Research, <http://cber.bus.utk.edu>

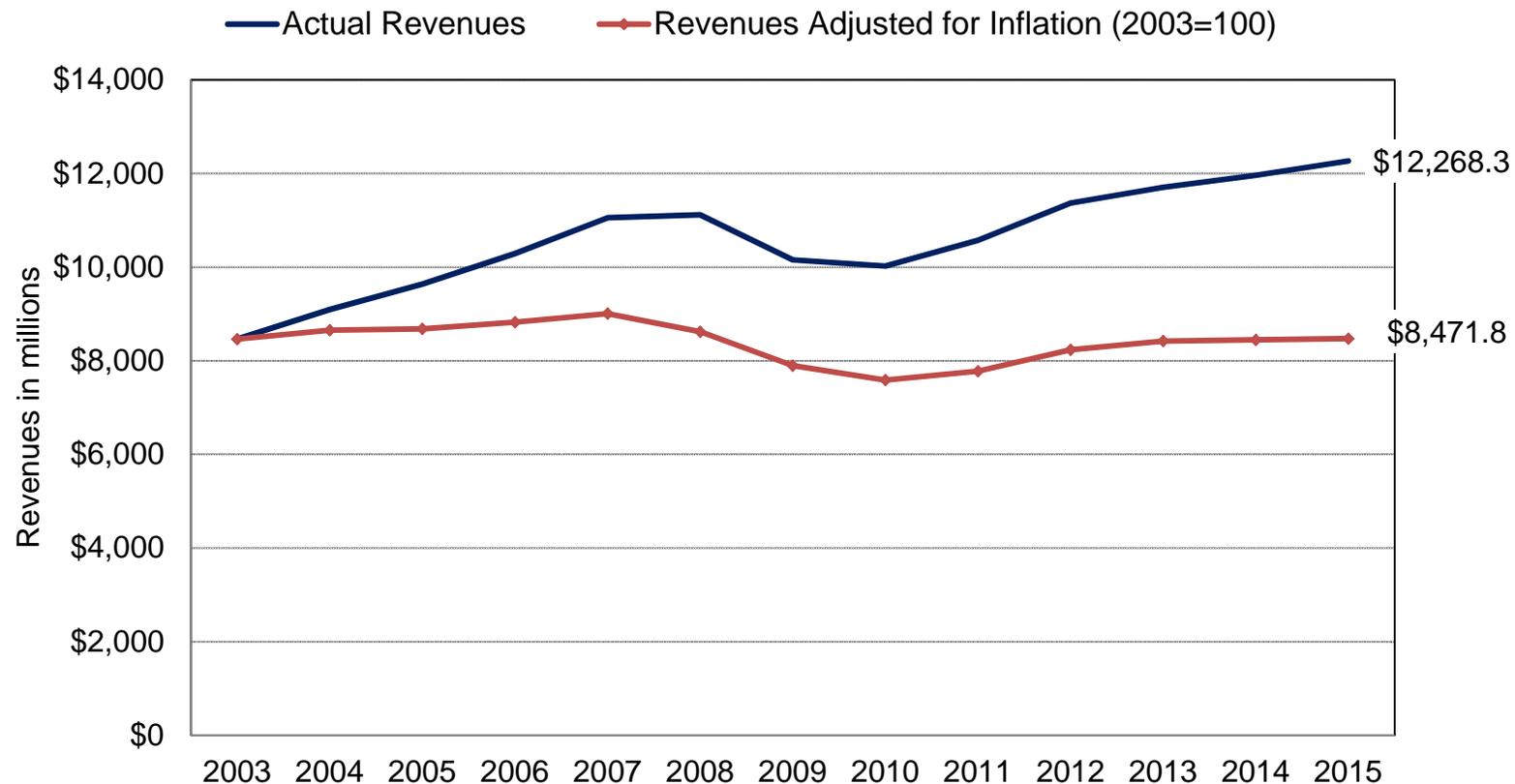
NA-Not Applicable
NM-Not Meaningful

Tennessee Department of Revenue Collections (Millions of Dollars)									
	2013			2014			2015		
	Amount	Percent Change	General Fund	Amount	Percent Change	General Fund	Amount	Percent Change	General Fund
Sales and Use	7,012.0	1.6	6,606.0	7,250.4	3.4	6,836.6	7,482.4	3.2	7,055.4
Gasoline	615.0	-0.5	9.4	614.0	-0.2	9.6	614.0	0.0	9.6
Motor Fuel	157.0	-2.3	3.0	159.4	1.5	3.0	160.9	1.0	3.0
Gasoline Inspection	62.9	-0.8	18.3	62.6	-0.5	18.3	63.2	1.0	18.5
Motor Vehicle Registration	252.9	3.6	44.8	259.2	2.5	45.5	264.4	2.0	46.4
Income	233.4	26.1	151.3	261.4	12.0	175.3	271.9	4.0	182.3
Privilege	302.8	20.6	298.0	333.1	10.0	325.8	353.1	6.0	345.3
Gross Receipts	368.2	-7.4	212.3	361.1	5.2	206.5	362.6	0.4	207.3
Gross Receipts - TVA	343.1	1.2	188.4	332.1	-3.2	182.0	332.1	0.0	182.0
Gross Receipts - Other	25.1	-20.4	21.9	29.0	15.5	25.3	30.5	5.0	26.5
Beer	17.2	-0.5	11.6	18.0	4.7	12.2	18.5	2.5	12.5
Alcoholic Beverage	52.1	3.0	43.1	55.2	6.0	45.8	57.4	4.0	47.6
Franchise & Excise	2,020.5	8.3	1,758.0	2,000.3	-1.0	1,708.4	2,040.3	2.0	1,742.6
Inheritance & Estate	110.6	-31.4	110.6	85.0	-23.1	85.0	70.0	-17.6	70.0
Tobacco	277.4	0.2	277.4	271.9	-2.0	271.9	269.1	-1.0	269.1
Motor Vehicle Title	11.9	-1.1	9.2	12.0	0.8	9.3	12.2	2.0	9.4
Mixed Drink	69.6	7.6	35.1	73.1	5.0	36.5	76.7	5.0	38.4
Business	137.7	8.0	137.7	143.2	4.0	143.2	148.9	4.0	148.9
Severance	2.4	3.2	1.0	2.5	3.0	1.1	2.7	9.2	1.2
Coin Amusement	0.3	0.0	0.3	0.3	-3.9	0.3	0.0	-100.0	0.0
Unauthorized Substance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	11,703.9	2.9	9,725.2	11,962.7	2.2	9,935.1	12,268.3	2.6	10,208.9
General Fund Growth		12.8			2.2			2.8	

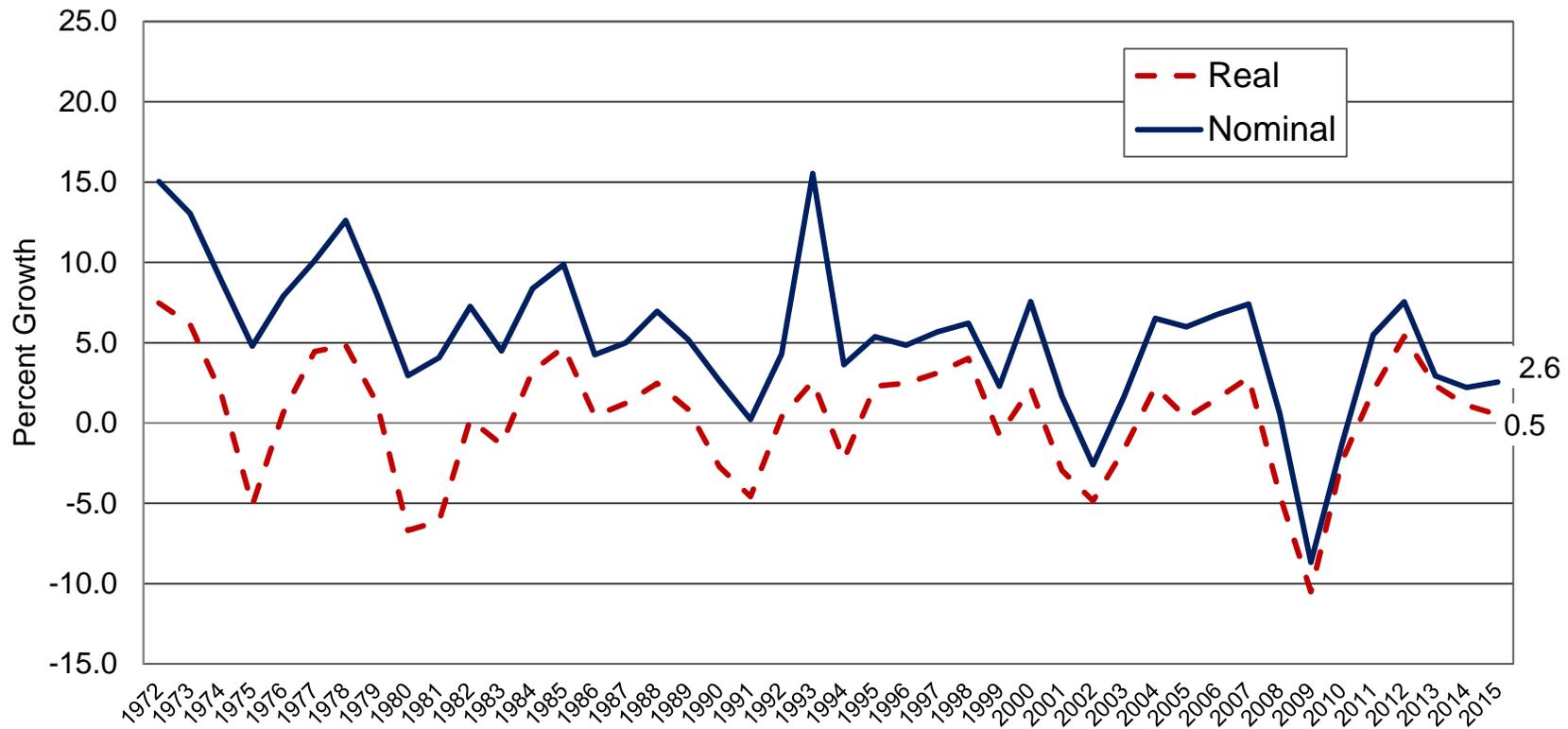
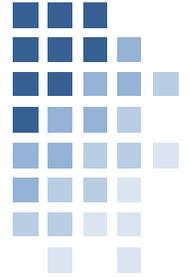
December 10, 2013
William F. Fox
Center for Business and Economic Research
University of Tennessee, Knoxville



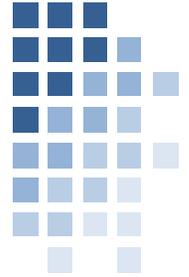
Actual Tax Collection Revenues and Revenues Adjusted for Inflation, 2003–2015

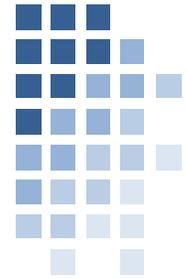


Growth in Adjusted Tax Collections, 1972–2015

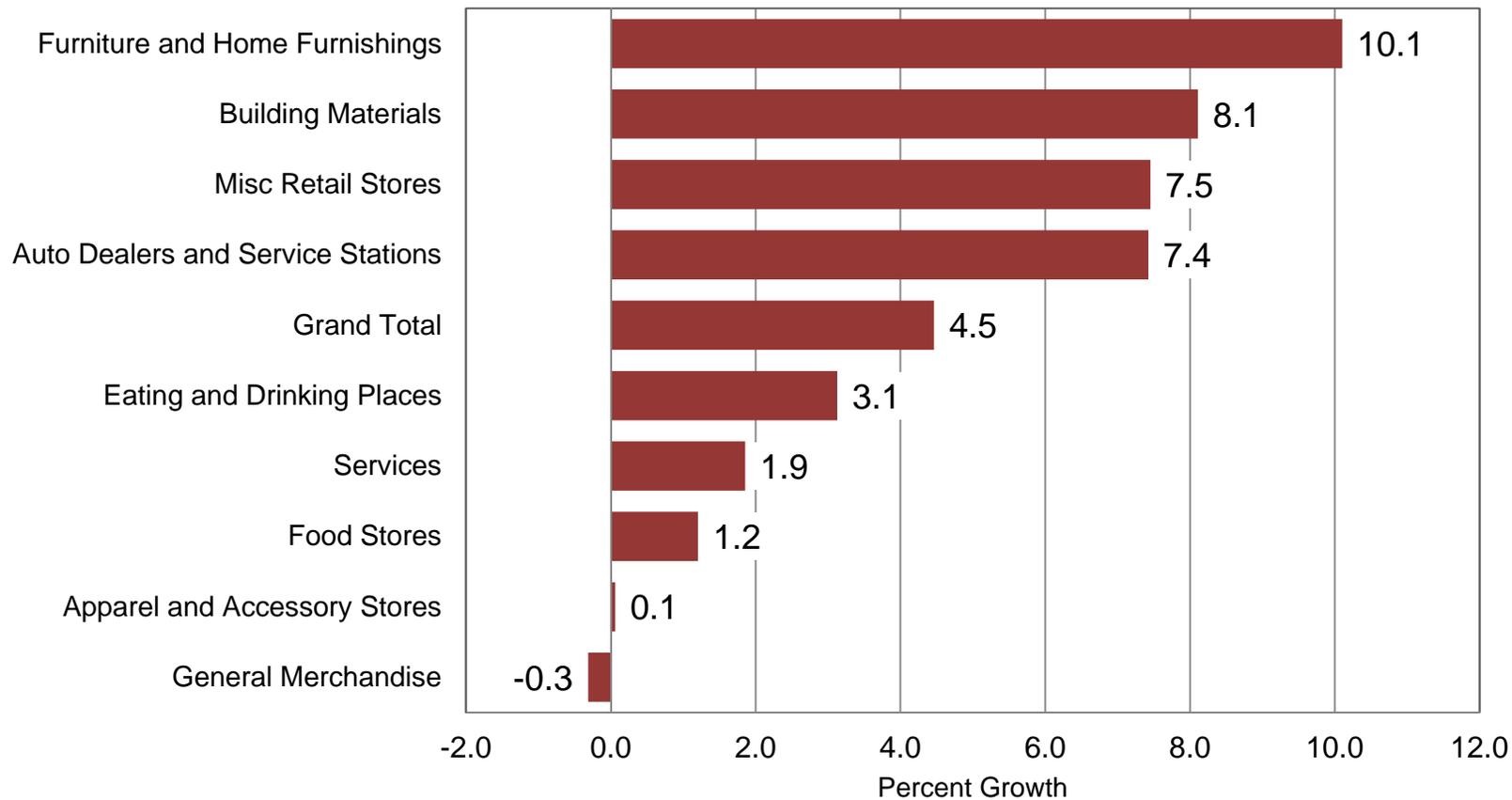


Growth in Sales Tax Revenue (3-month moving average)

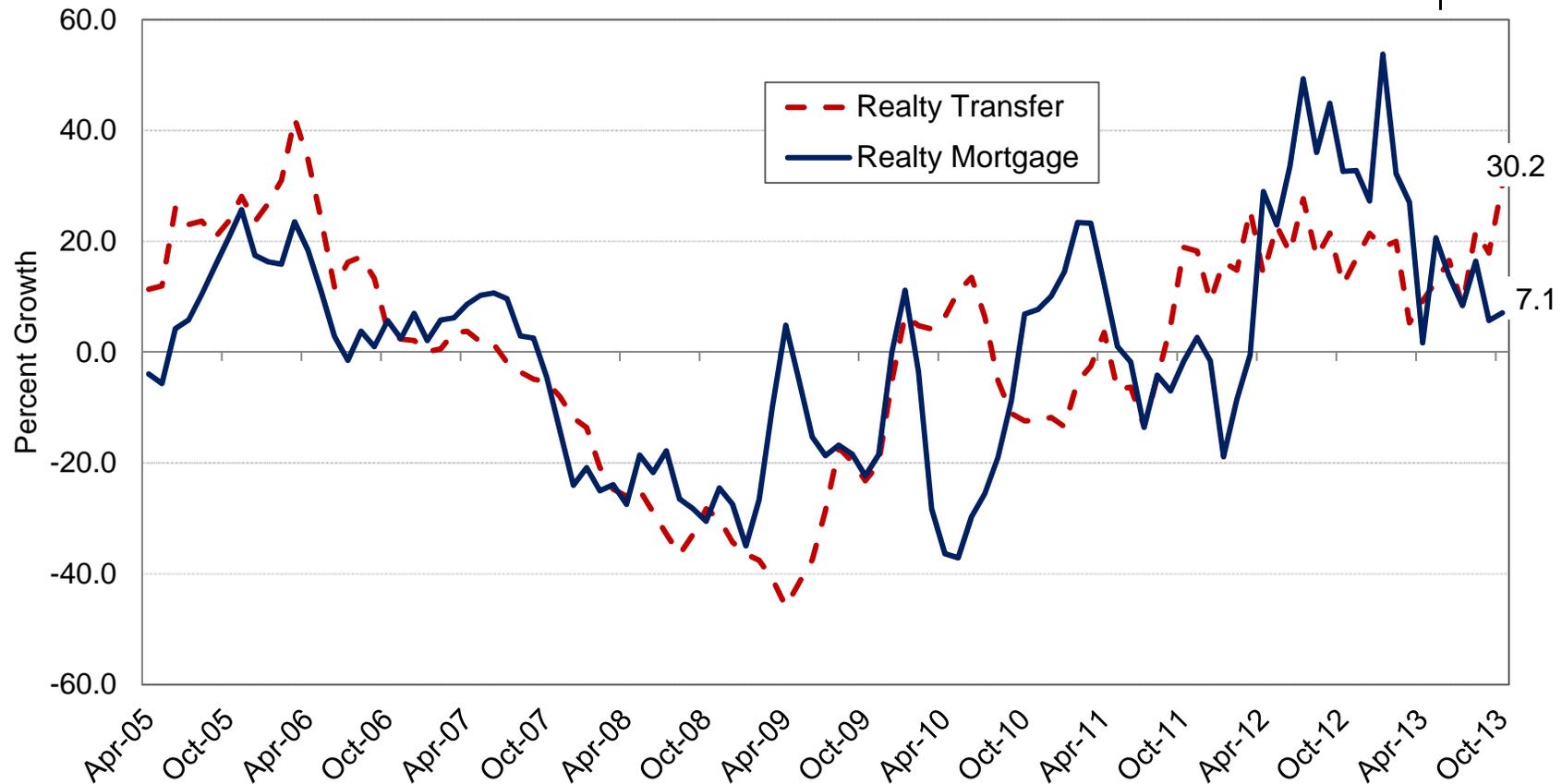
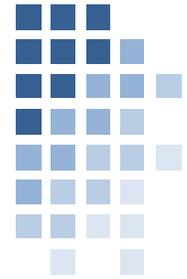




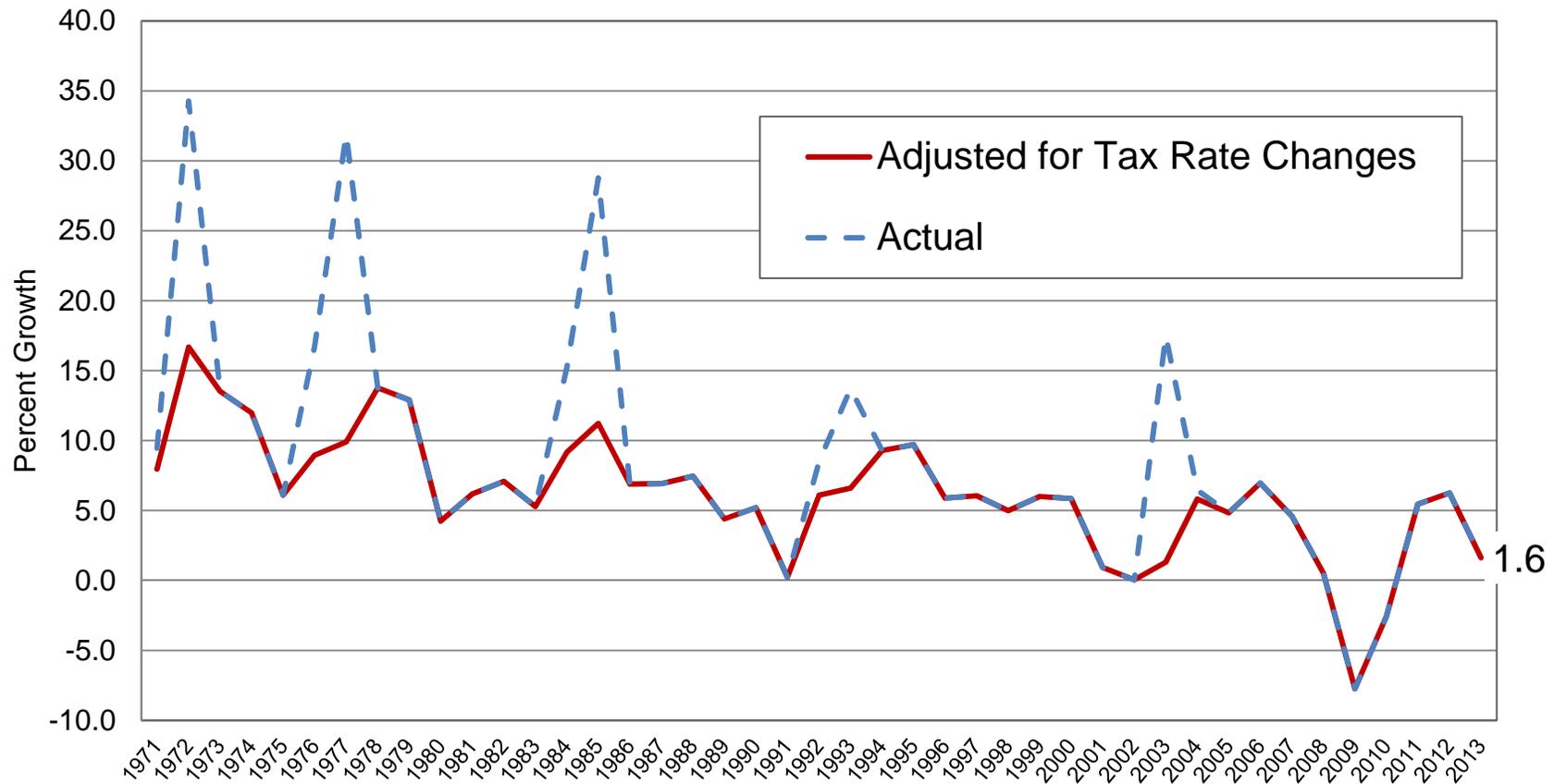
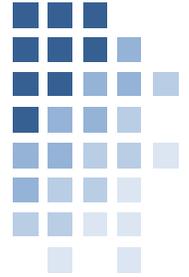
Sales Tax Collections by Category of Sales (Quarter Ending Oct 2012 to Oct 2013)



Realty Transfer and Mortgage Tax Collections (3-month moving average)



Sales Tax Collections, Actual vs. Rate Adjusted, 1971–2013





Estimated State Tax Revenue

Tennessee Department of Revenue

December 10, 2013

Fiscal Year 2013 Tax Revenue

COMPARISON OF ACTUAL ACCRUAL STATE TAX REVENUE

DEPARTMENT OF REVENUE TAXES

YEAR OVER YEAR COMPARISON

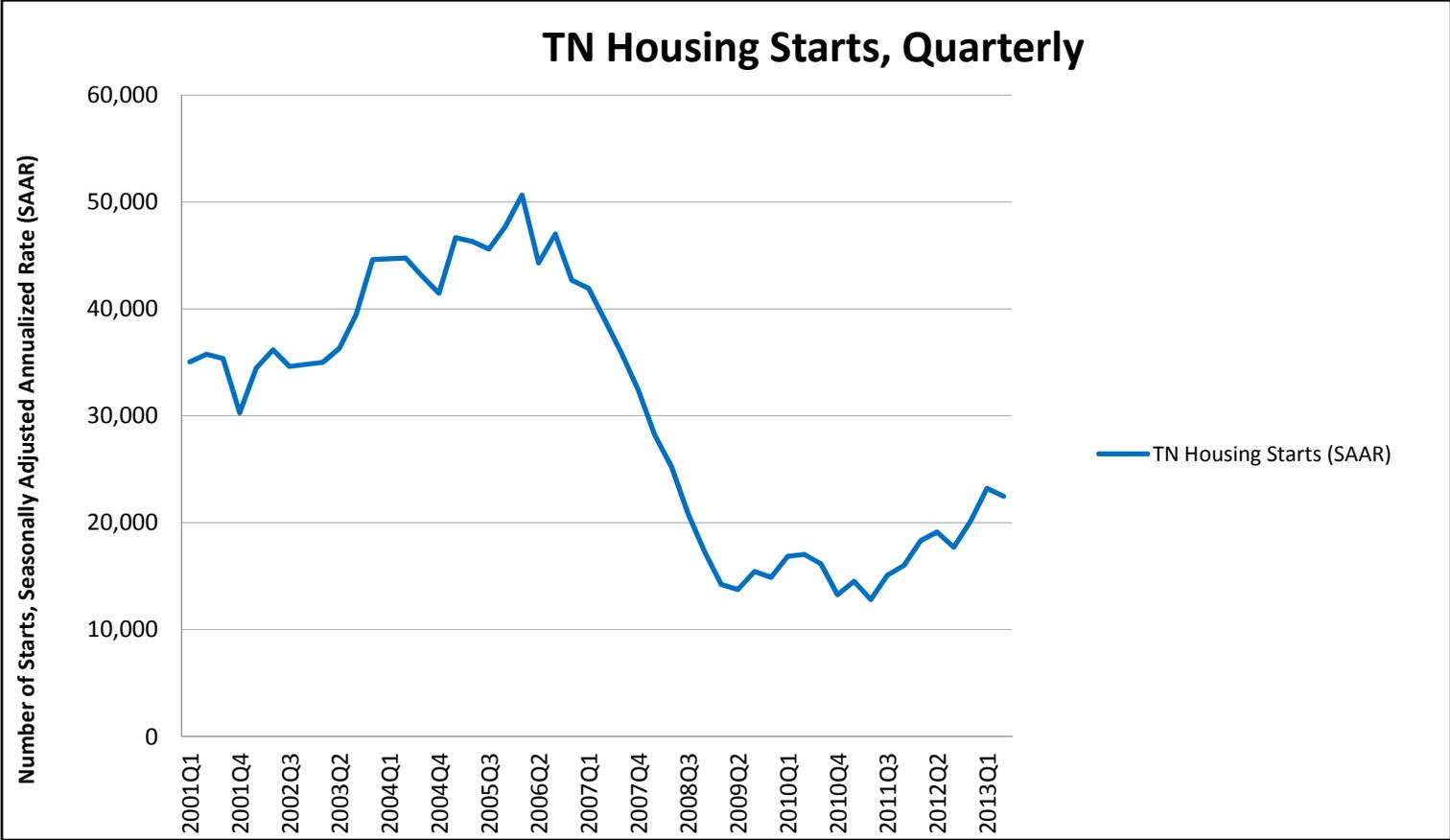
	Fiscal Year 2012	Fiscal Year 2013	% Change	Tax Weight	Total % Point Contribution
Sales and Use Tax	\$ 6,899,944,000	\$ 7,012,028,700	1.6%	60.7%	0.99%
Hall Dividend & Interest Tax	185,151,400	233,418,800	26.1%	1.6%	0.42%
Corporate Franchise and Excise Tax	1,865,029,500	2,020,504,700	8.3%	16.4%	1.37%
Inheritance, Gift, and Estate Tax	161,266,000	110,627,500	-31.4%	1.4%	-0.45%
Other	2,259,324,200	2,284,531,700	1.1%	19.8%	0.22%
TOTAL ACCRUAL REVENUE	\$ 11,370,715,100	\$ 11,661,111,400	2.6%	100%	12.55%

*Data from F&A

¹Total % Point Contribution does not equal total growth due to rounding

Housing

- Housing starts grew over 20% in the second half of Fiscal Year 2013
- By the end of Fiscal Year 2014, housing starts are expected to have increased 50% from a year earlier



Tax Implications

Direct Revenue Implications of Increased Housing Activity (Most Recent 6 Month Data)

Growth is presented as year over year (YOY)

Sales Tax Collections from Building Materials

	Collections	YOY % Growth	YOY \$ Growth
May	\$ 37,822,441	5.87%	2,220,177
June	36,476,478	7.21%	2,452,327
July	35,752,801	3.79%	1,304,918
August	32,221,411	11.08%	3,212,771
September	29,611,210	3.13%	899,306
October	31,872,304	10.07%	2,916,097
			13,005,596

Privilege Tax Collections from Realty Transfer

	Collections	YOY % Growth	YOY \$ Growth
May	8,821,292	23.60%	1,686,667
June	9,038,843	14%	1,109,967
July	7,872,471	-9.33%	-809,915
August	12,633,097	65.39%	4,994,904
September	10,409,625	5.12%	507,272
October	9,112,271	27.47%	1,963,444
			9,452,339

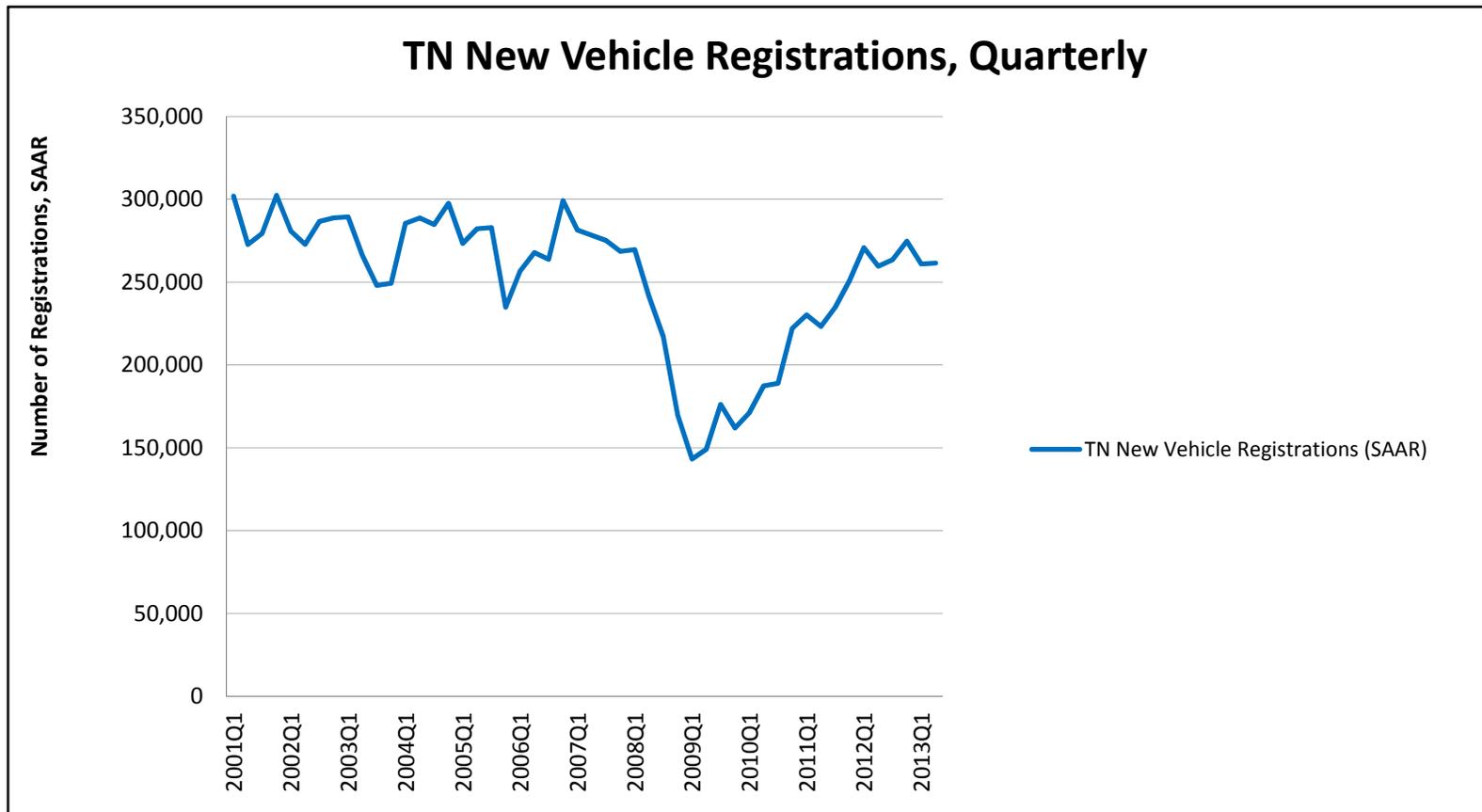
Privilege Tax Collections from Realty Mortgage

	Collections	YOY % Growth	YOY \$ Growth
May	4,983,550	27.30%	1,068,572
June	4,565,649	8.69%	365,166
July	3,884,990	-9.17%	-392,120
August	6,168,108	51.11%	2,086,228
September	4,698,111	-16.05%	-897,949
October	4,135,014	-4.50%	-194,717
			2,035,180

6 Month Total Growth 24,493,115

Automotive

- New Vehicle Registrations increased 4.5% from FY 2012 – FY 2013
- Expected to increase over 10% during FY 2014 with continued moderate growth through FY 2015



Tax Implications

Revenue Implications of Increased Motor Vehicle Sales (Most Recent 6 Month Data)

Growth Is Presented as Year Over Year (YOY)

Sales Tax Collections from Auto Dealers & Service Stations

	Collections	YOY % Growth	YOY \$ Growth
May	\$ 76,412,394	8.10%	5,720,546
June	77,065,373	1.13%	864,658
July	78,726,199	5.51%	4,112,588
August	82,017,518	6.93%	5,315,795
September	83,960,674	8.27%	6,411,657
October	73,764,097	7.03%	4,844,049
			27,269,293

Motor Vehicle Title Collections

	Collections	YOY % Growth	YOY \$ Growth
May	1,011,353	-17.23%	-210,525
June	1,081,840	10%	97,587
July	1,333,050	36.70%	357,868
August	1,109,762	7.46%	76,999
September	1,011,262	13.59%	121,022
October	1,045,182	10.52%	99,466
			542,417

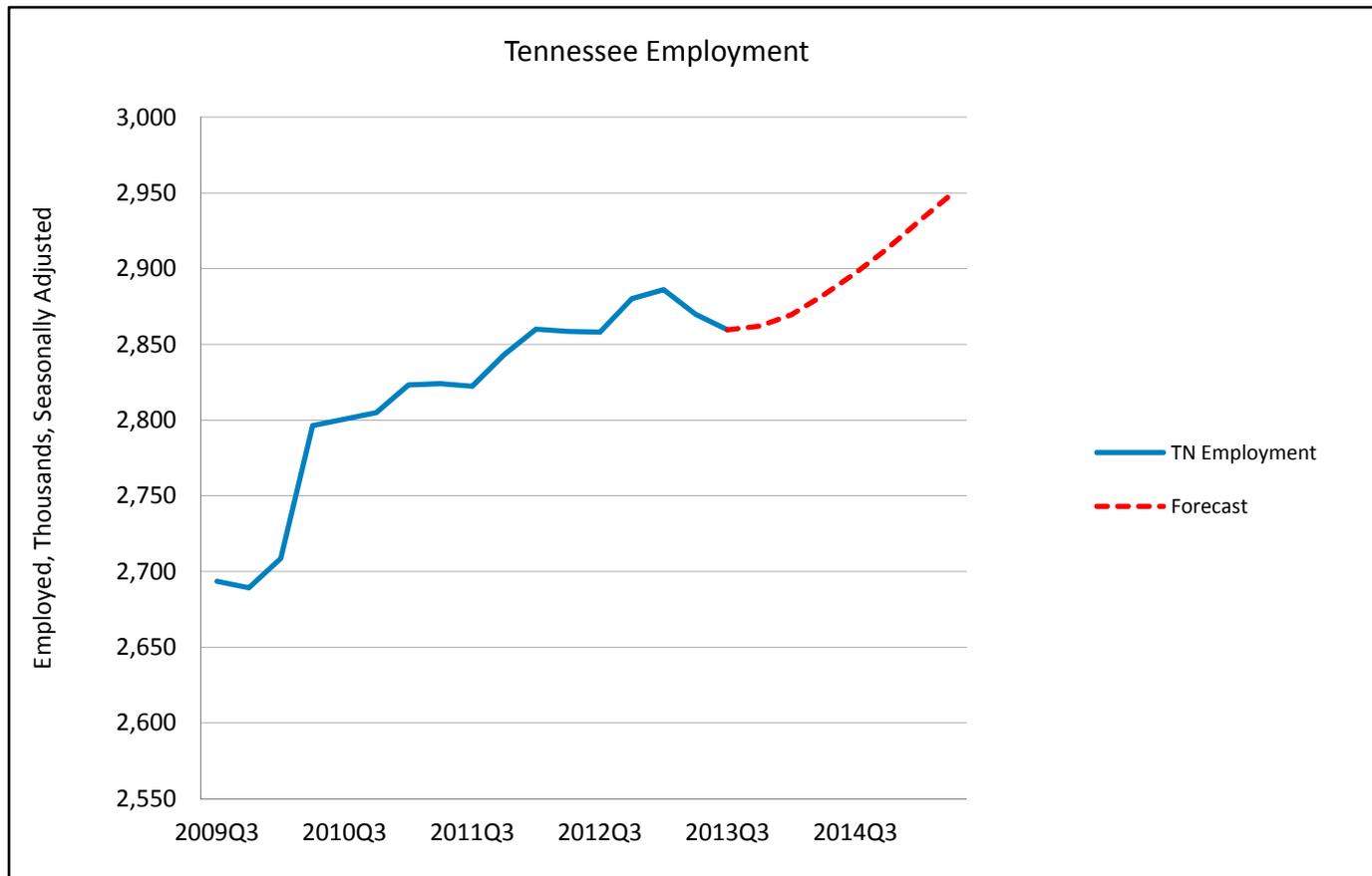
Motor Vehicle Registration Collections

	Collections	YOY % Growth	YOY \$ Growth
May	21,346,492	4.50%	919,453
June	20,951,102	1.00%	206,989
July	21,134,606	4.78%	964,864
August	22,224,434	7.61%	1,570,928
September	19,654,987	3.00%	571,841
October	19,982,411	4.39%	840,234
			5,074,309

6 Month Total Growth 32,886,019

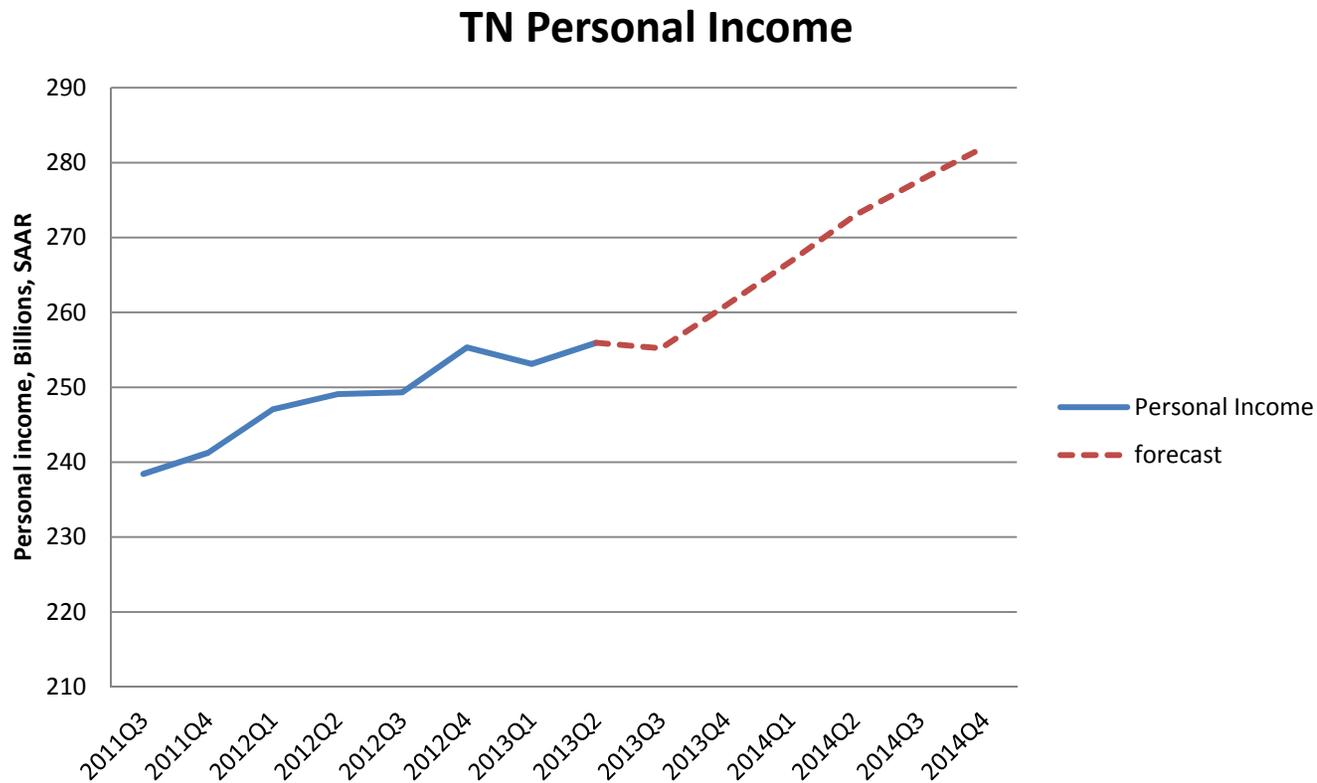
Tennessee Employment

- Temporary weakness in employment
- Continued job growth expected over the forecast horizon, led by private sector



Tennessee Gains in Personal Income

- Personal Income gains of 4.15% for FY 2014
- Personal Income gains over 6% for FY 2015, led by growth in wages and salaries





**TENNESSEE DEPARTMENT OF REVENUE COLLECTION ESTIMATES
STATE FUNDING BOARD MEETING----12/10/2013
Accrual year basis (USD)**

SOURCE OF REVENUE

Department of Revenue	official	official	FY 2014		FY 2015	
	Accrual Revenues FY 2013	Revenue Estimates FY2014	Revised Estimates FY 2014	% change ² over FY 2013	Revenue Estimates FY 2015	% change ² over FY 2014
	Actual					
Sales and Use Tax	\$7,012,000,000	7,288,400,000	7,270,500,000	3.69%	7,568,600,000	4.10%
Gasoline Tax	615,000,000	611,800,000	619,400,000	0.71%	617,300,000	-0.34%
Motor Fuel Tax	157,000,000	162,300,000	159,800,000	1.81%	163,500,000	2.30%
Gasoline Inspection Tax	62,900,000	63,700,000	63,300,000	0.54%	63,300,000	0.00%
Motor Vehicle Registration Tax	252,900,000	256,500,000	264,500,000	4.61%	275,100,000	4.00%
Income Tax ³	233,400,000	201,800,000	278,800,000	19.45%	259,800,000	-6.82%
Privilege Tax ¹	259,800,000	298,200,000	290,700,000	11.91%	300,600,000	3.42%
Gross Receipts Tax - TVA	343,100,000	342,700,000	332,100,000	-3.21%	335,400,000	1.00%
Gross Receipts Tax - Other	25,100,000	31,500,000	27,000,000	7.69%	27,400,000	1.25%
Beer Tax	17,200,000	17,800,000	17,100,000	-0.77%	17,000,000	-0.50%
Alcoholic Beverage Tax	52,100,000	55,100,000	54,200,000	4.08%	56,300,000	3.84%
Franchise & Excise Tax	2,020,500,000	2,135,900,000	1,961,900,000	-2.90%	2,079,600,000	6.00%
Inheritance and Estate Tax	110,600,000	85,000,000	99,300,000	-10.20%	82,500,000	-17.00%
Tobacco Tax	277,400,000	272,700,000	277,100,000	-0.12%	275,700,000	-0.50%
Motor Vehicle Title Fees	11,900,000	13,100,000	12,400,000	3.70%	13,000,000	4.90%
Mixed Drink Tax	69,600,000	72,400,000	73,100,000	5.10%	77,200,000	5.50%
Business Tax	137,700,000	140,600,000	142,600,000	3.56%	149,800,000	5.05%
Severance Tax	2,400,000	2,400,000	2,900,000	21.98%	3,100,000	8.00%
Coin-operated Amusement Tax	300,000	300,000	300,000	-13.64%	300,000	0.00%
Unauthorized Substance Tax	-----					
Total Department of Revenue	\$11,661,100,000	\$12,052,200,000	\$11,947,200,000	2.45%	\$12,365,500,000	3.50%

¹Privilege excludes 34.8 million dollar earmark not included by F&A

²Percent change in revenue for each tax is the calculated percentage change *before* rounding to nearest 100,000

³Fiscal Year 2014 Income Tax Forecast includes collections forecast component of \$249.8 million and an accrual adjustment of \$29 million

Definitions and Sources

- SAAR = Seasonally Adjusted Annualized Rate
- FY = Fiscal Year
- TN = Tennessee
- Data Sourced From:
 - Moody's (Fall, 2013)
 - BEA (Fall, 2013)
 - BLS (Fall, 2013)
 - TN Department of Revenue (Fall, 2013)
 - TN Department of Finance & Administration (Fall, 2013)



Tennessee Tax Revenue Estimates
for
FY2013-2014 and FY2014-2015

Prepared by:
Fiscal Review Committee Staff
December 10, 2013





FRC Economic Outlook

- ❑ Moderate growth in personal consumption ranging between 2.0% and 3.0%
- ❑ Retail sales grow 2.5% to 3.5% per year
- ❑ Vehicle Sales slow slightly to more sustainable growth rate (down from 9.0% to 6.5%)
- ❑ Housing continues moderate recovery
- ❑ Employment continues a slow recovery
 - 2013 Unemployment Rate: 7.1%
 - 2014 Unemployment Rate: 6.5%
 - 2015 Unemployment Rate: 6.0%





FRC Economic Outlook

- ❑ Fed may begin tapering \$85B-a-month bond buying program in early-2014, but likely continue program at lower buying levels for sometime thereafter
- ❑ Money Supply continues to grow
- ❑ Inflation between 2.0% and 3.5%
- ❑ Fed keeps short-term rates close to zero
 - Until Unemployment < 6.0%
- ❑ Congress continues raising debt ceiling (January 2014 and beyond)
- ❑ Federal budget deficit continues
 - \$680 billion/year





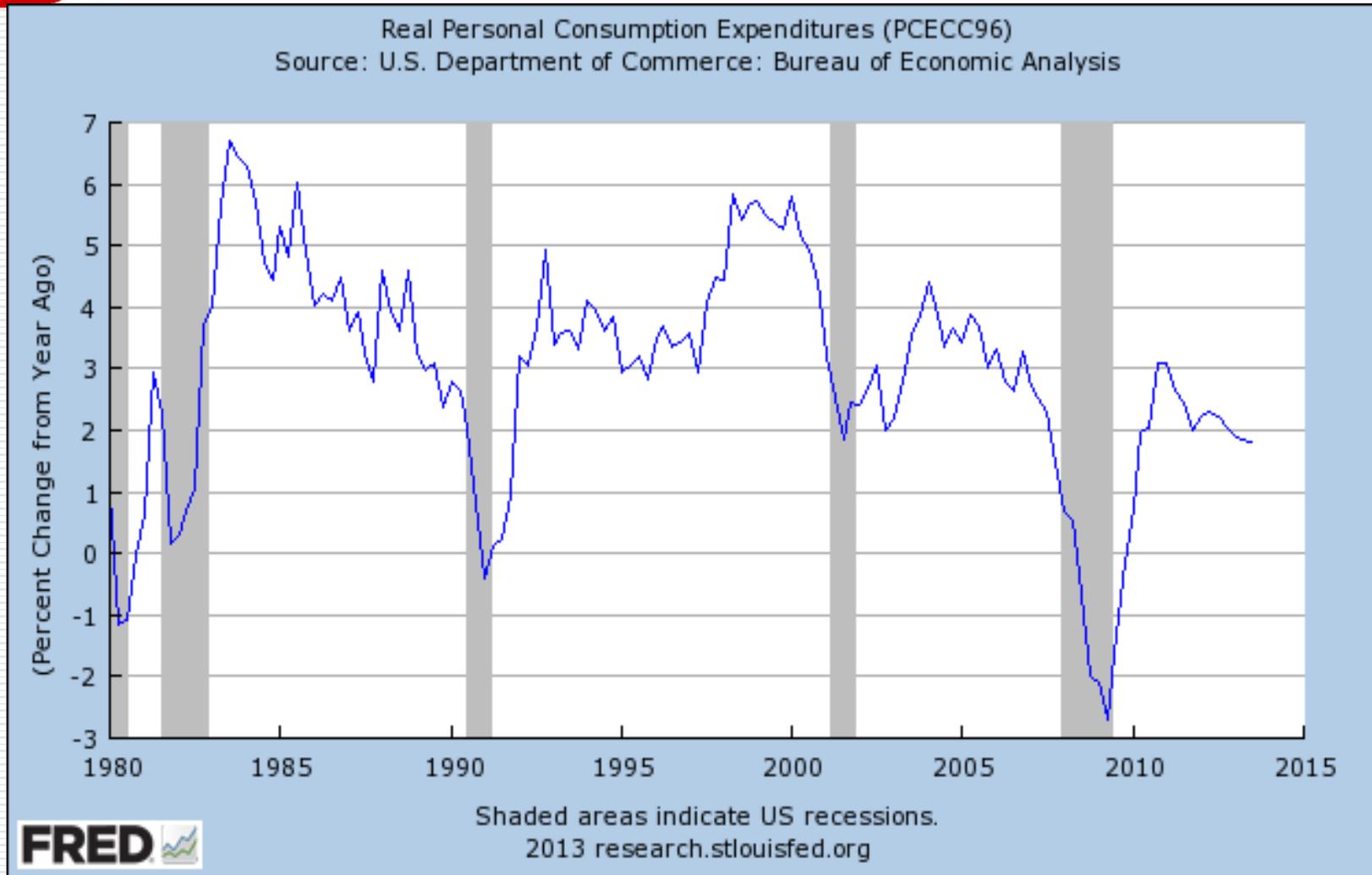
FRC Economic Outlook

- ❑ National debt will continue to grow
- ❑ National debt \approx 100% of GDP
- ❑ Continued political uncertainty from Congress regarding healthcare, budget deficit, national debt, will continue to impact business and consumers
- ❑ Result: a continued economic recovery that remains sluggish
 - ***2013 GDP growth estimate \approx 2.1%***
 - ***2014 GDP growth estimate \approx 2.6%***
 - ***2015 GDP growth estimate \approx 2.9%***



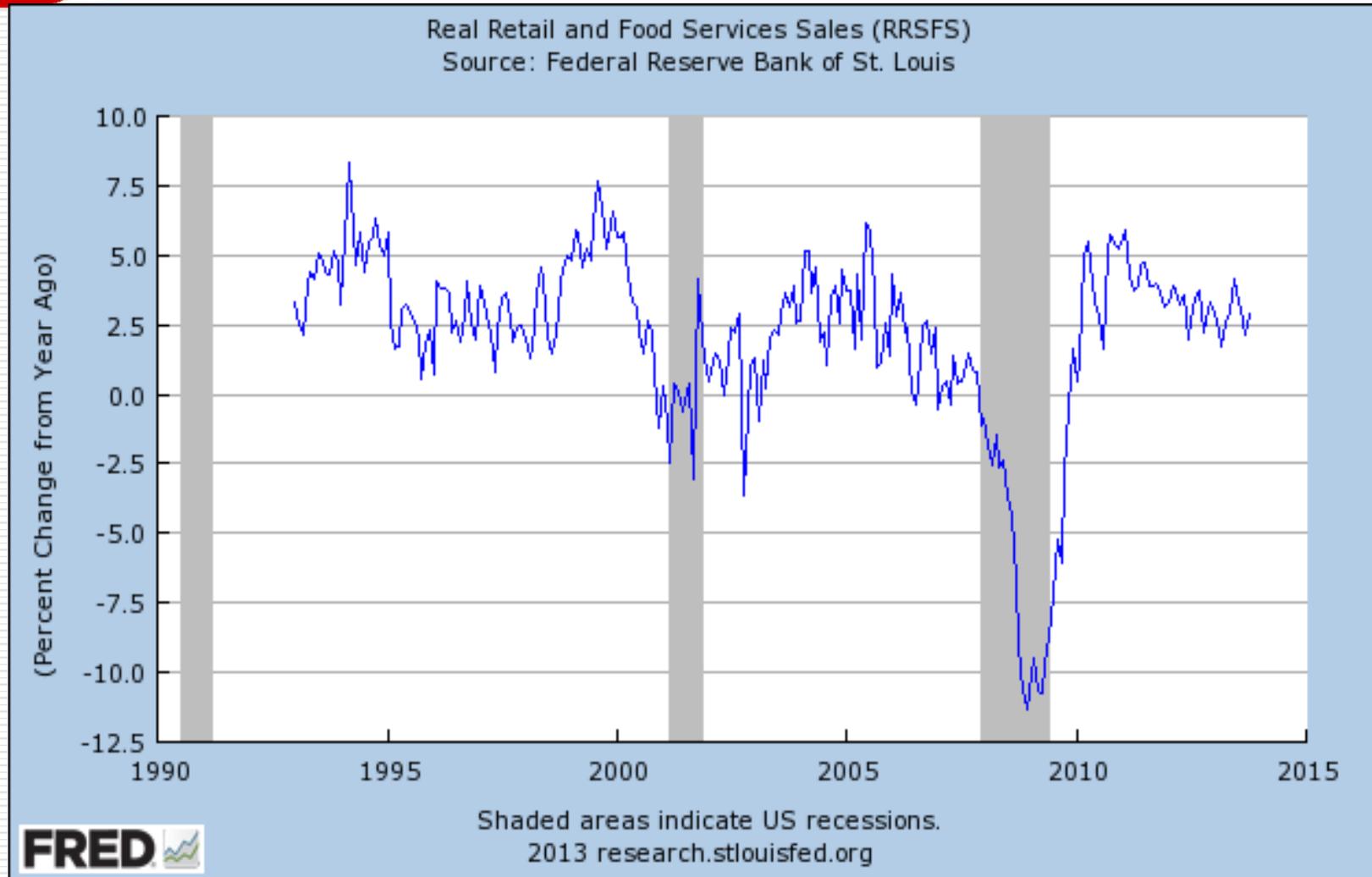


Real Personal Consumption



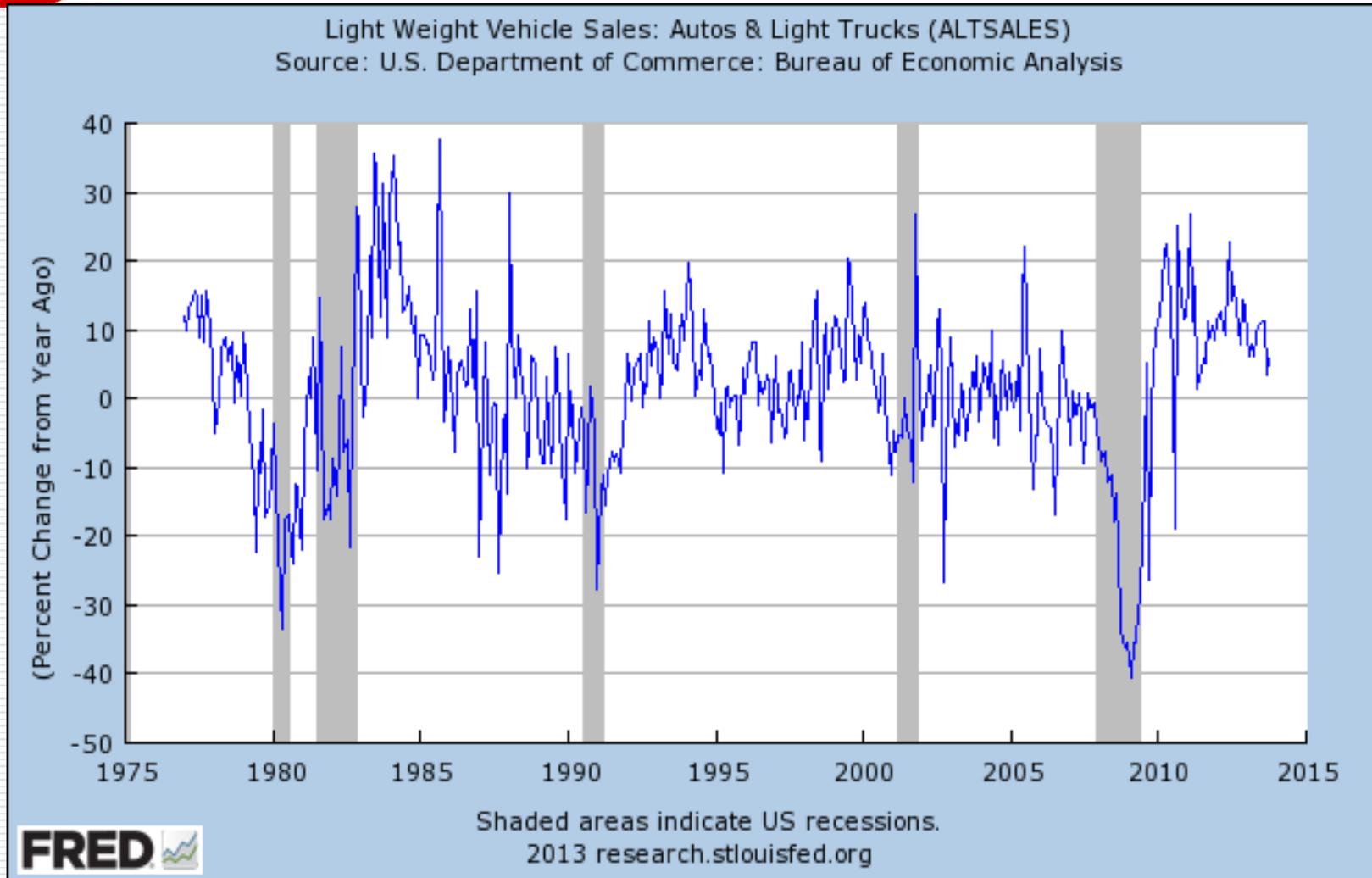


Retail Sales Growth



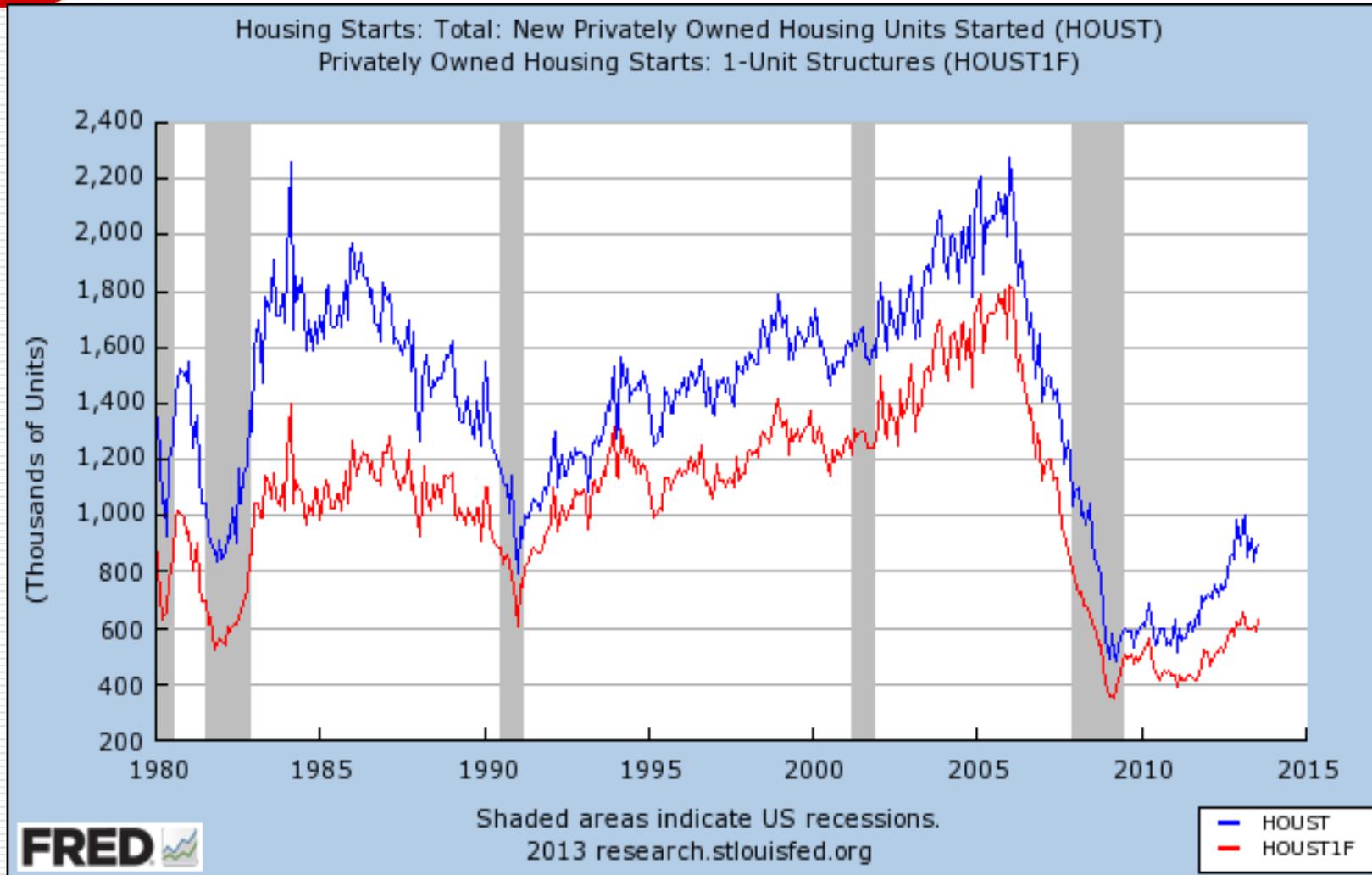


Vehicle Sales Growth



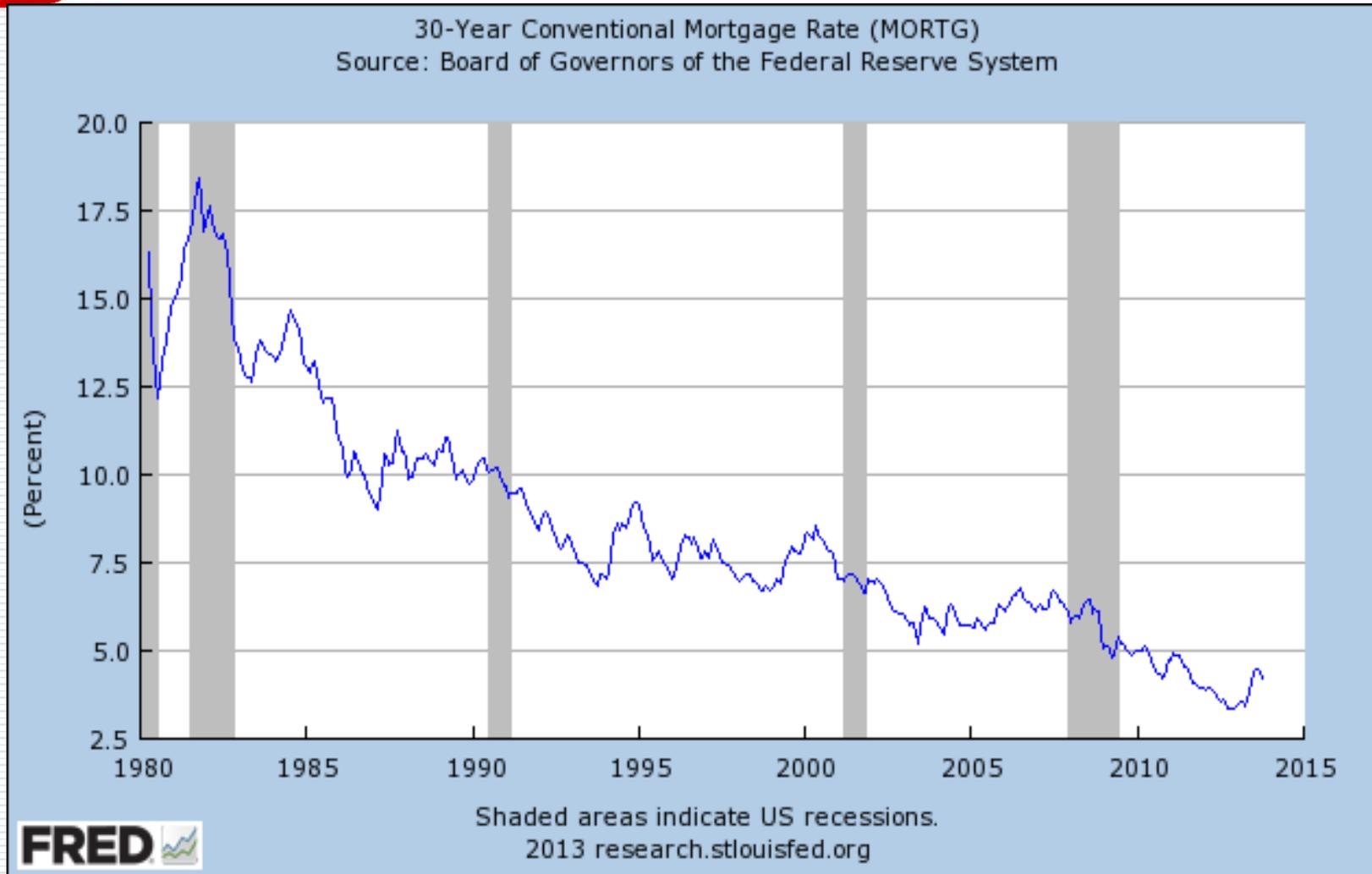


Housing Starts



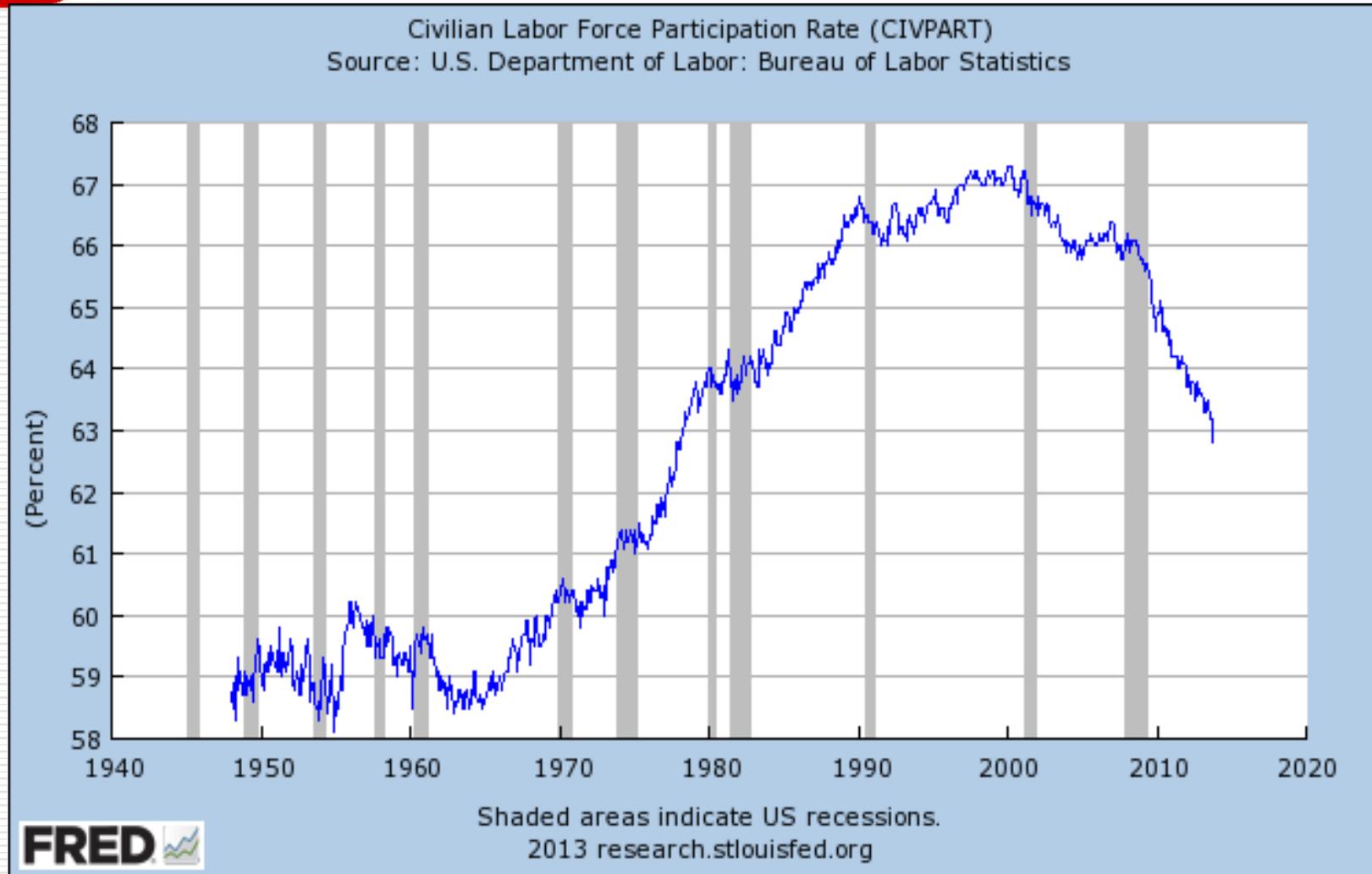


Mortgage Rate



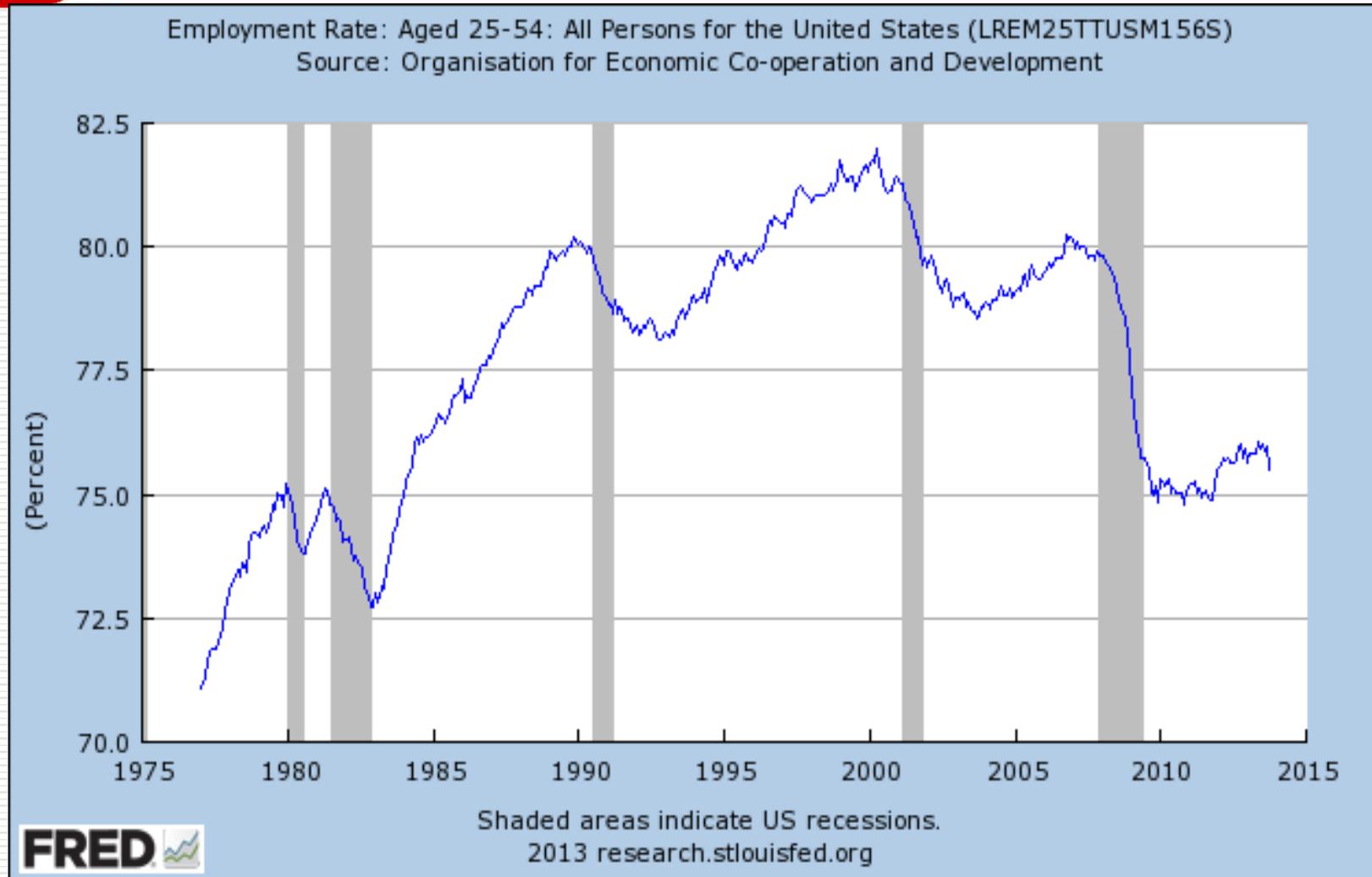


Participation Rate



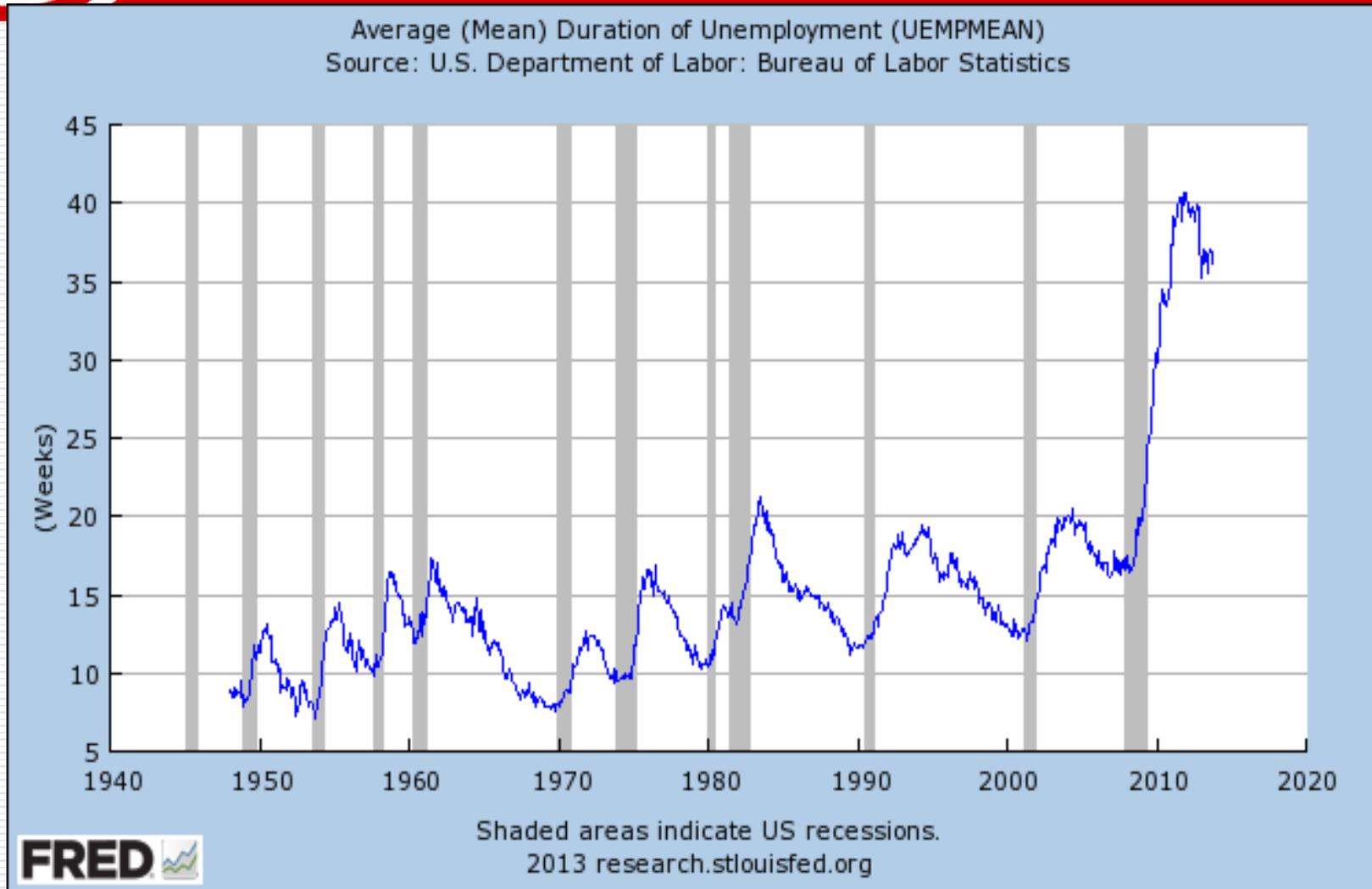


Employment Rate: Age 25-54



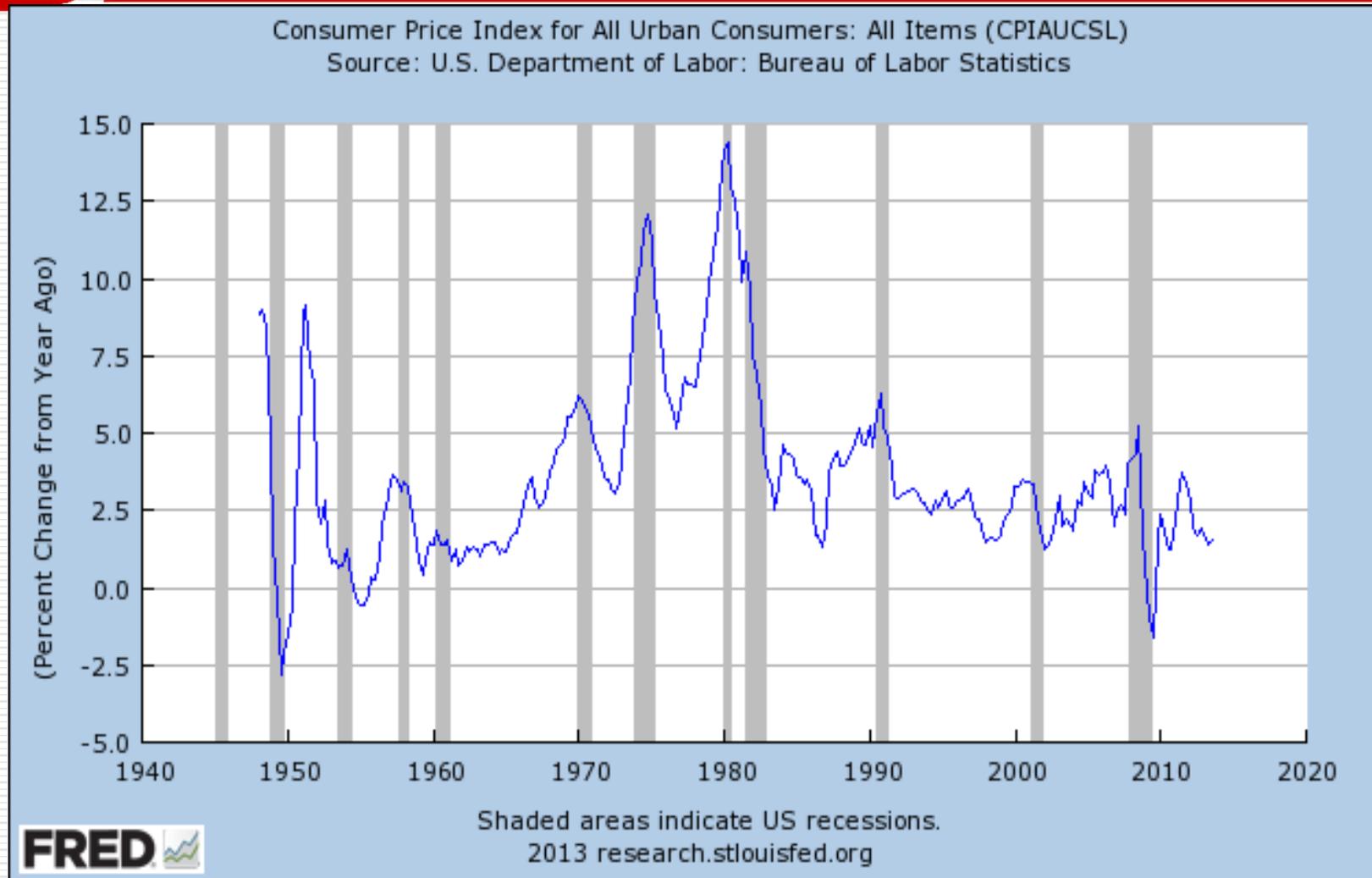


Duration of Unemployment



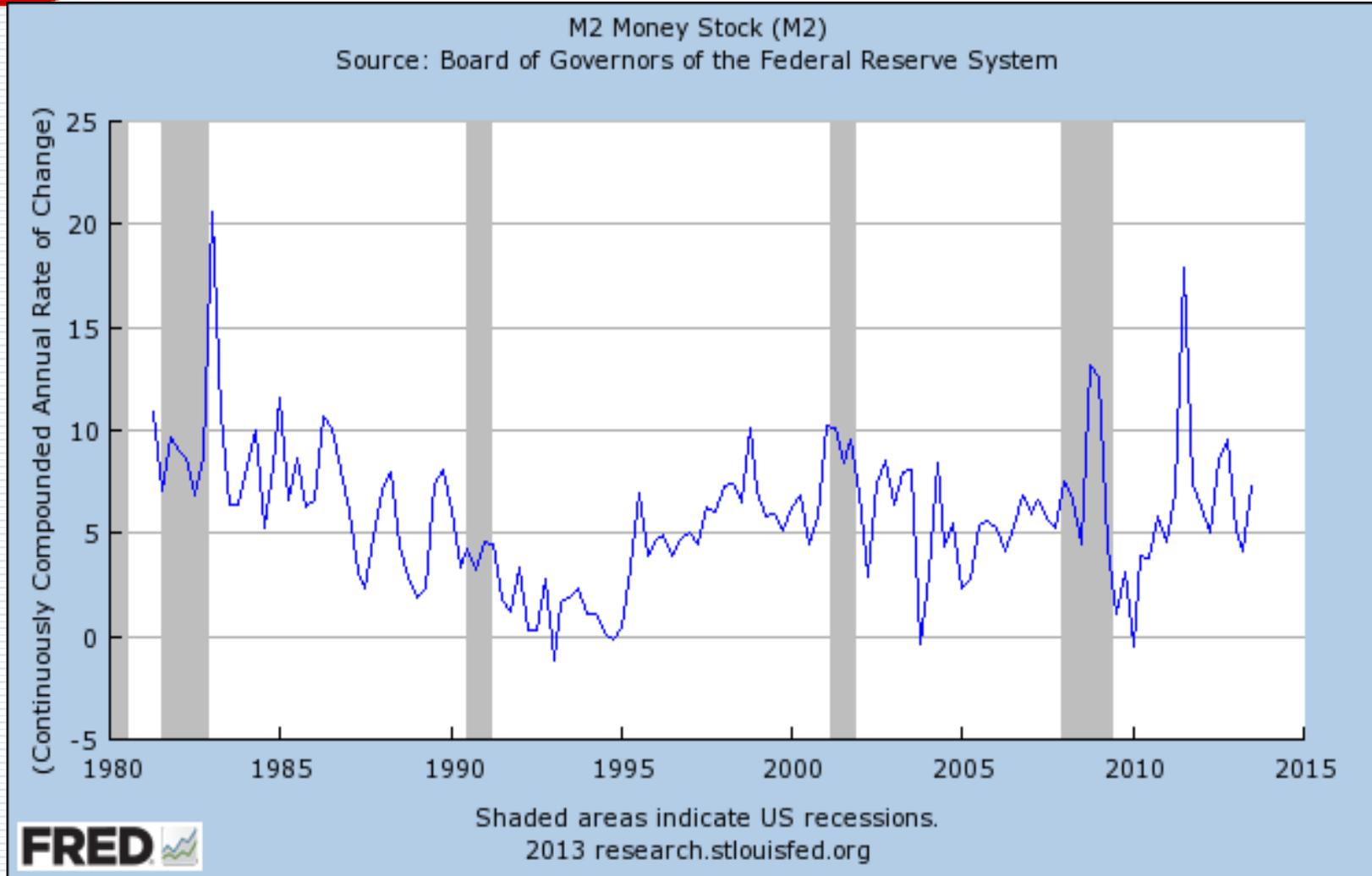


Consumer Price Index



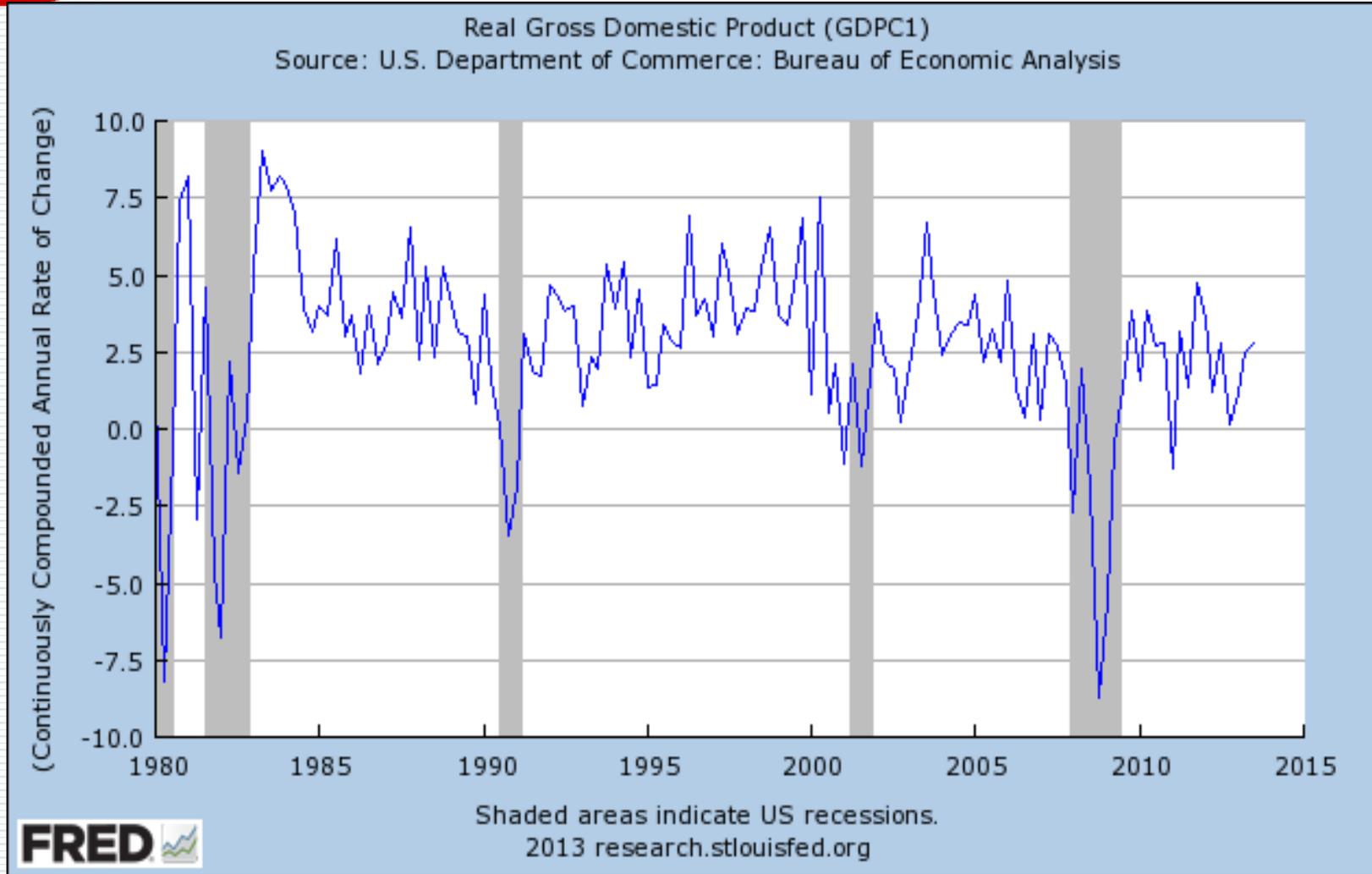


Growth of Money Supply



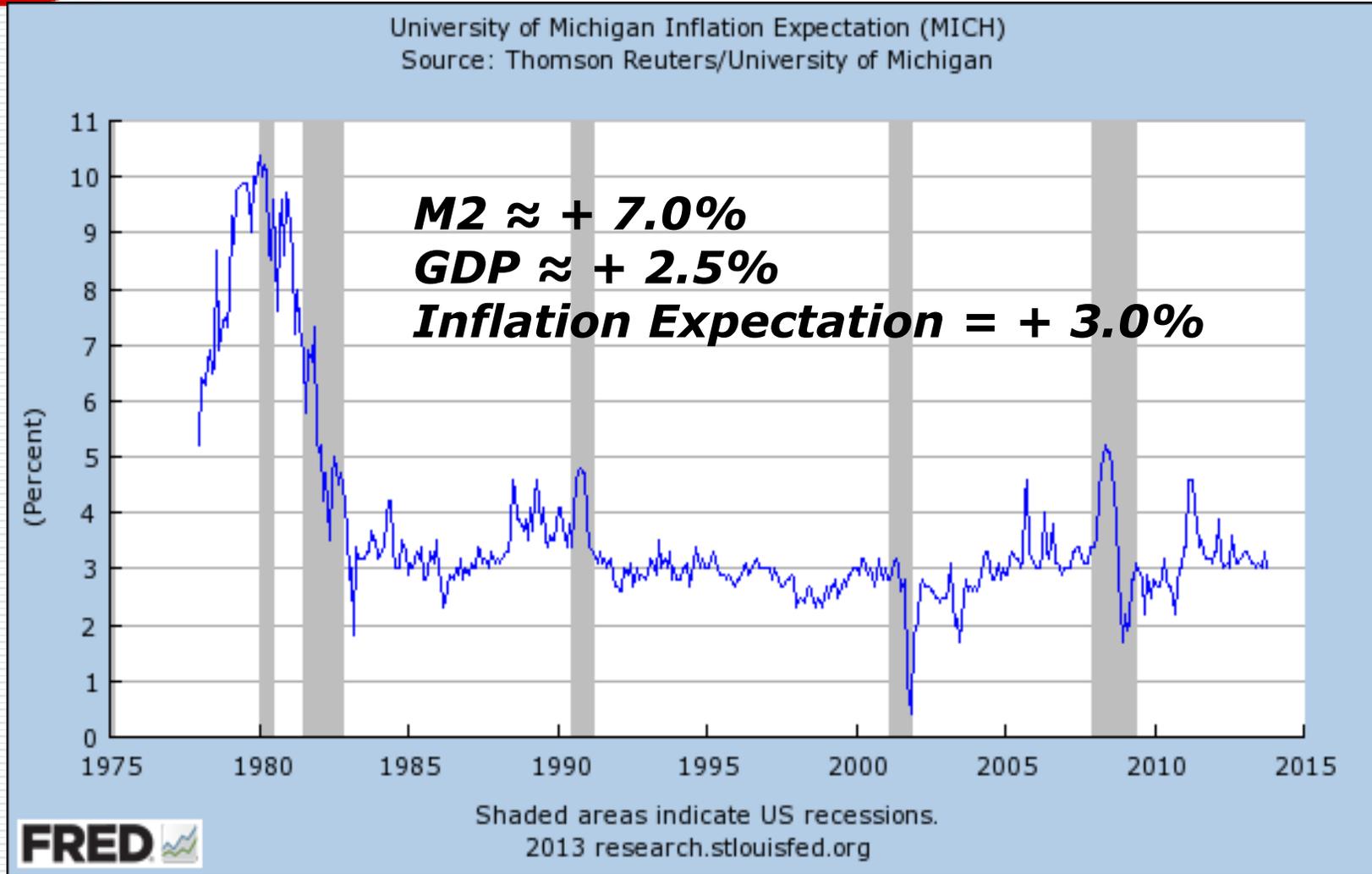


Growth in GDP



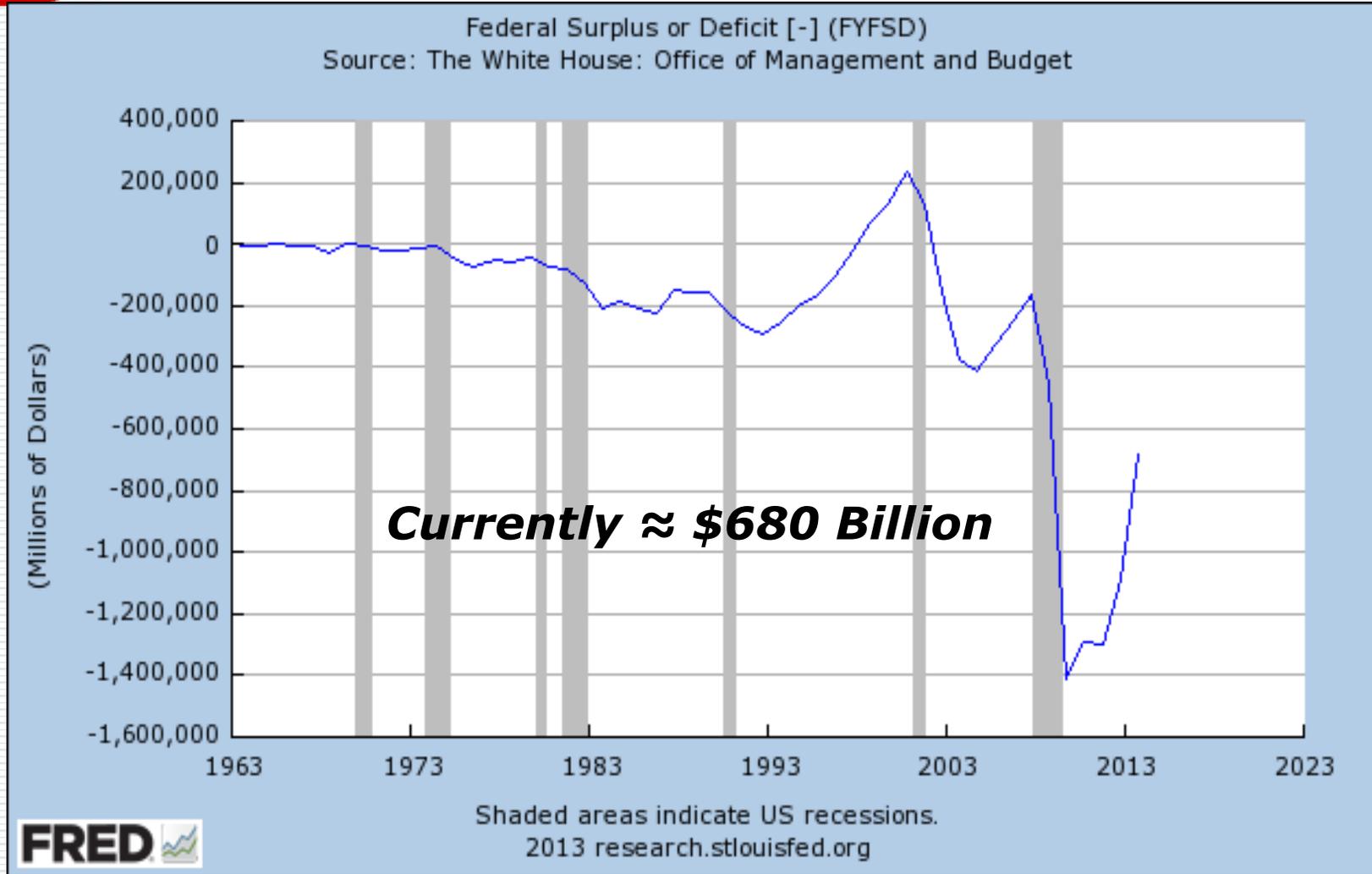


Inflation Expectation



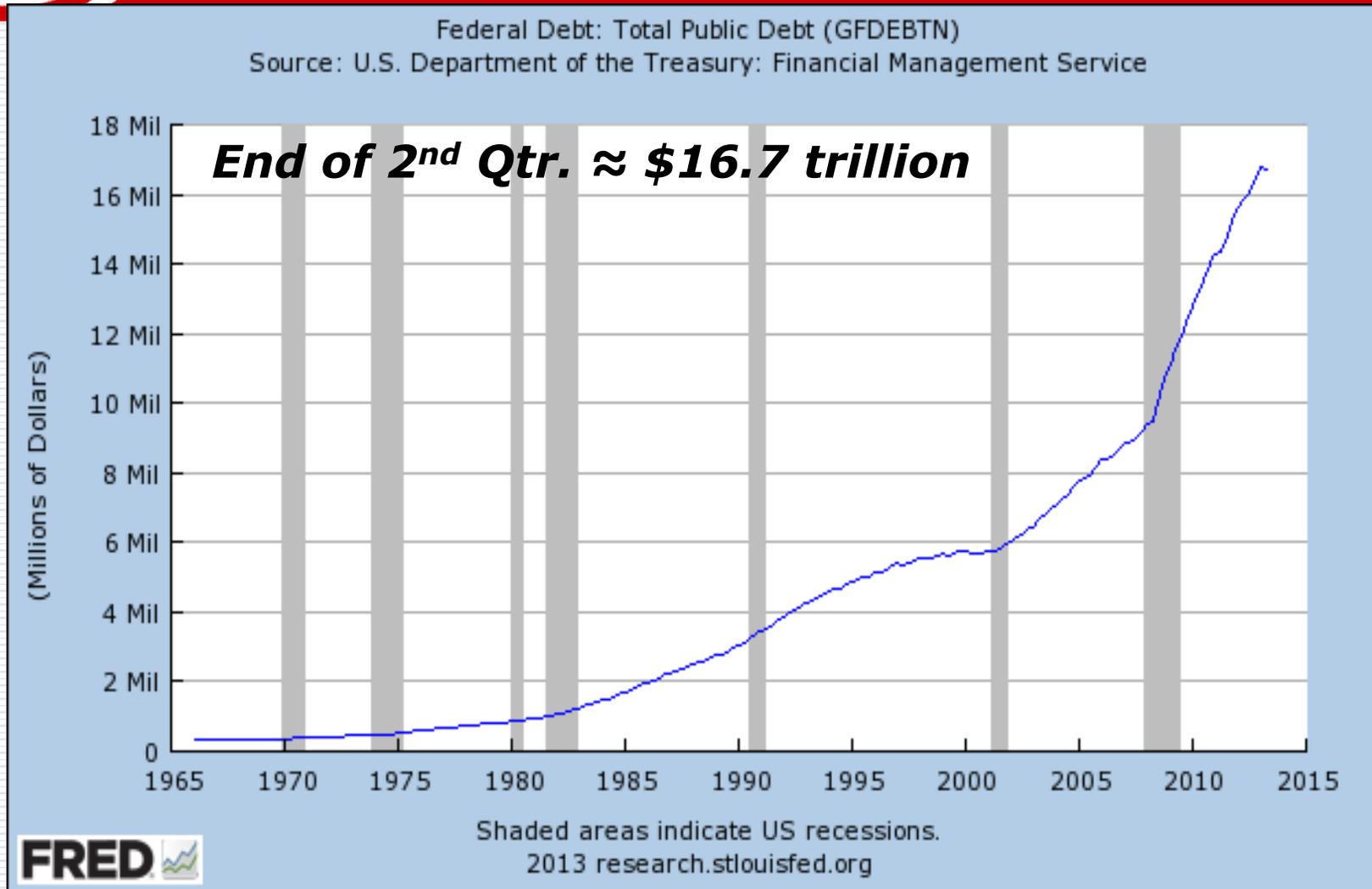


Federal Budget Deficit



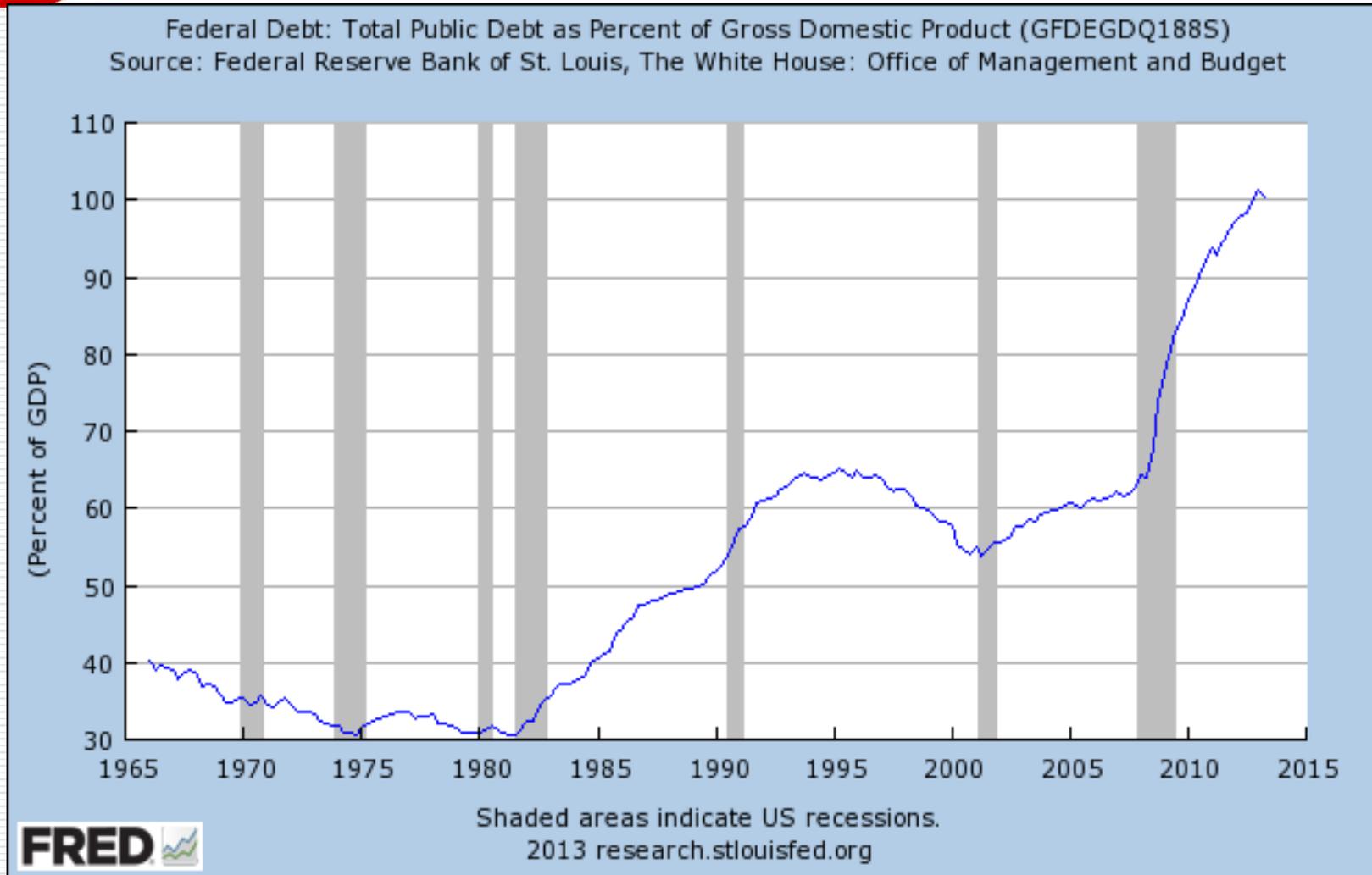


Total Federal Debt



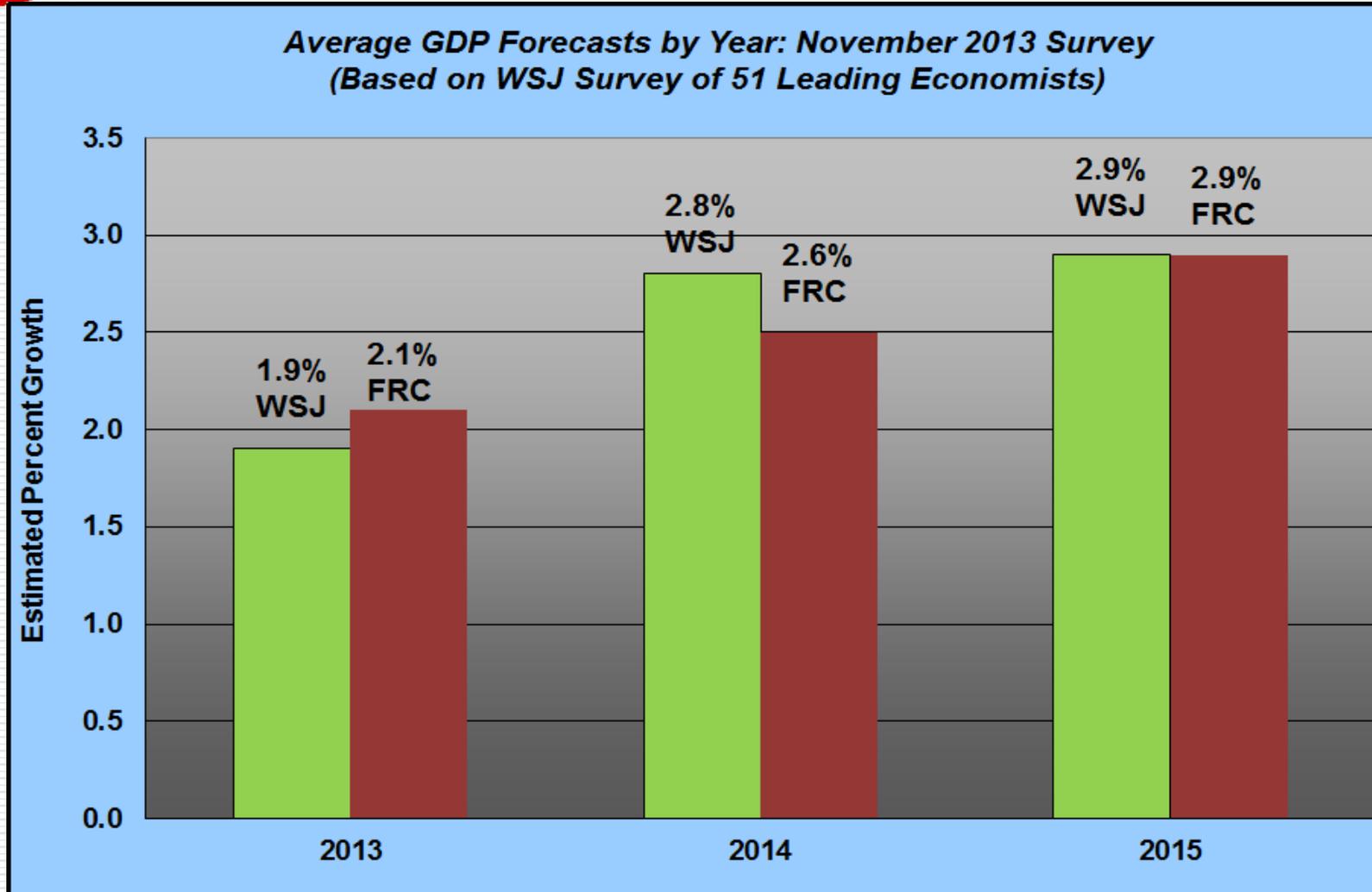


Federal Debt as Percent of GDP





Macroeconomic Outlook - Recap





TN Tax Revenue Outlook

- Translates to moderate tax revenue growth for TN in FY13-14 and FY14-15:
 - Total Revenue Growth of 2.4% in FY13-14
 - General Fund Growth of 2.3% in FY13-14
 - Total Revenue Growth of 2.9% in FY14-15
 - General Fund Growth of 3.1% in FY14-15





Key Forecasting Issues

- What's going to happen with sales tax collections?
- Do motor fuel tax collections continue downward trend?
- What happens with Hall Income Tax collections after a year of 26.1% growth in FY12-13?
- What happens with F&E collections after 22.3% growth in FY11-12; 9.1% growth in FY12-13; and now YTD growth of -11.4% in FY13-14?
- What happens with inheritance & estate tax collections after positive growth of 44.5% in FY11-12; negative growth of 31.4% in FY12-13; and with the phase out of the taxes beginning with tax year 2013?
- Do tobacco tax collections continue downward trend?





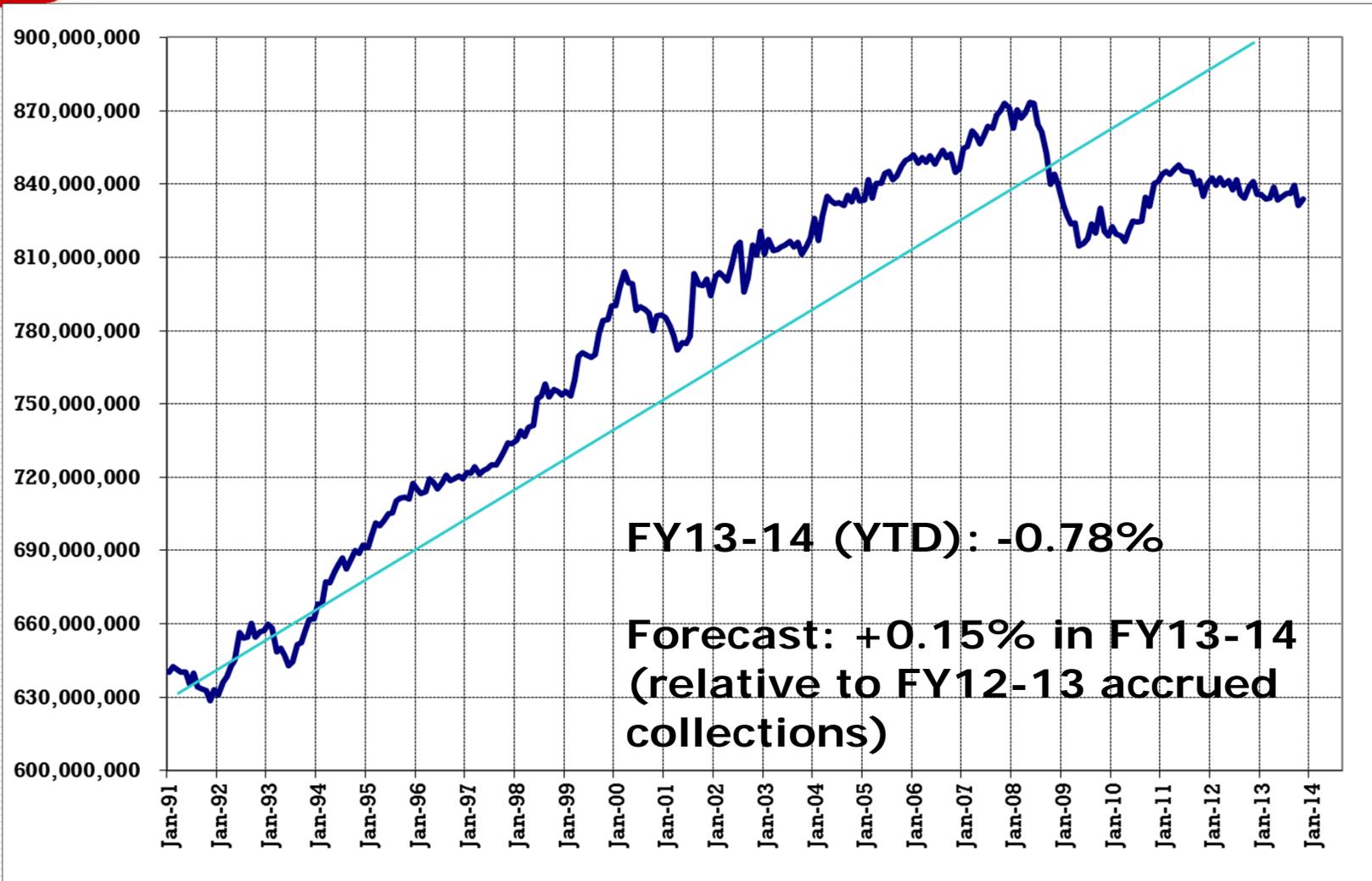
Base Analysis for Sales Tax

	FY11-12	Growth over FY10-11	FY12-13	Growth over FY11-12	FY13-14	Growth over FY12-13
August	5.09%	6.18%	1.13%	1.91%	3.75%	3.51%
September	8.33%		2.84%		3.50%	
October	6.17%		0.93%		2.91%	
November	5.19%		2.80%		3.91%	
December	6.78%	6.76%	5.01%	1.79%	?	3.56%
January	7.47%		-0.30%		?	
February	10.24%		2.42%		?	
March	7.58%		0.11%		?	
April	8.77%		-0.70%		?	
May	4.40%		3.97%		?	
June	6.24%		1.18%		?	
July	3.30%		3.42%		?	
Year-over-Year (accrual)		6.25%		1.62%		3.75%



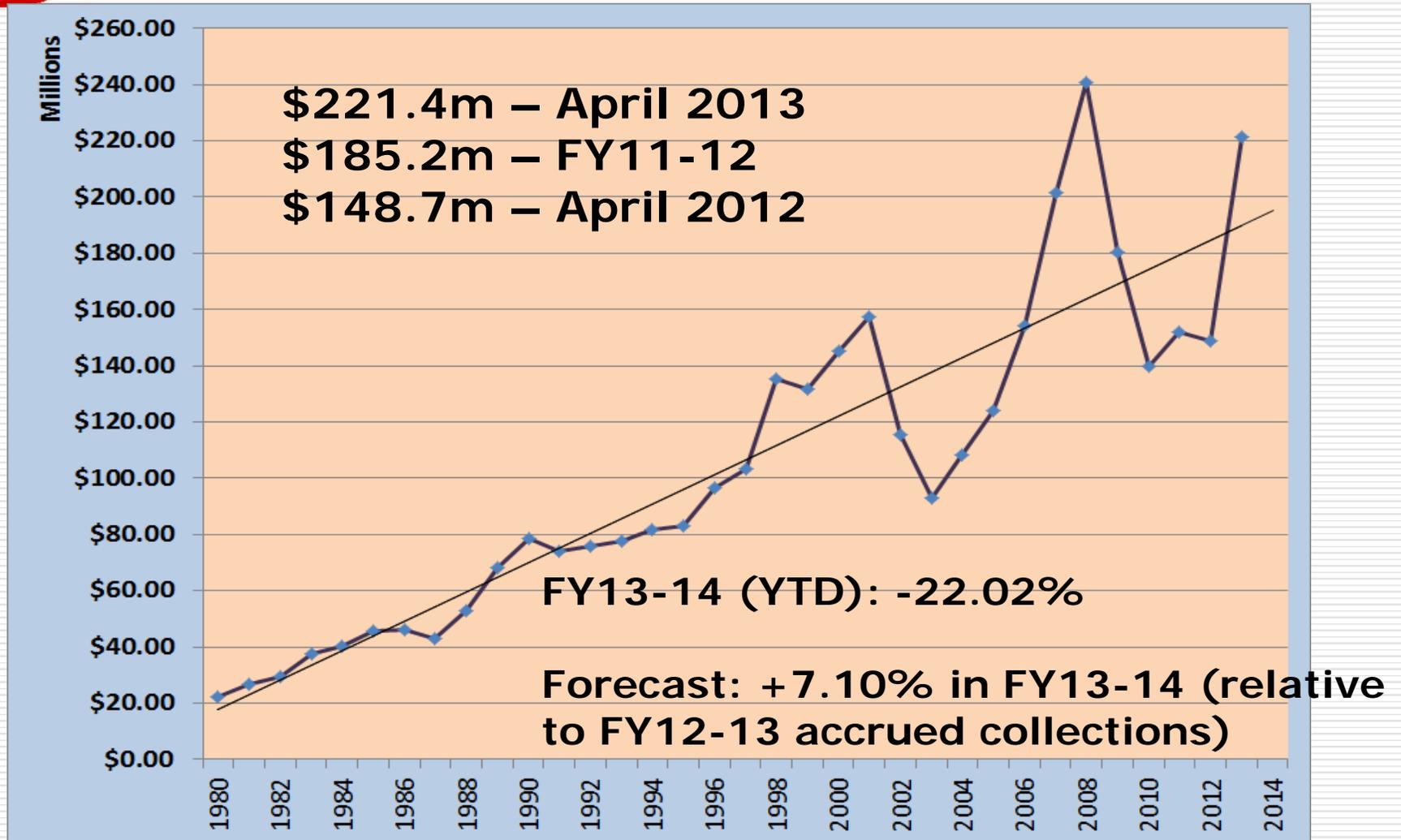


Fuel Taxes (12 month MS)



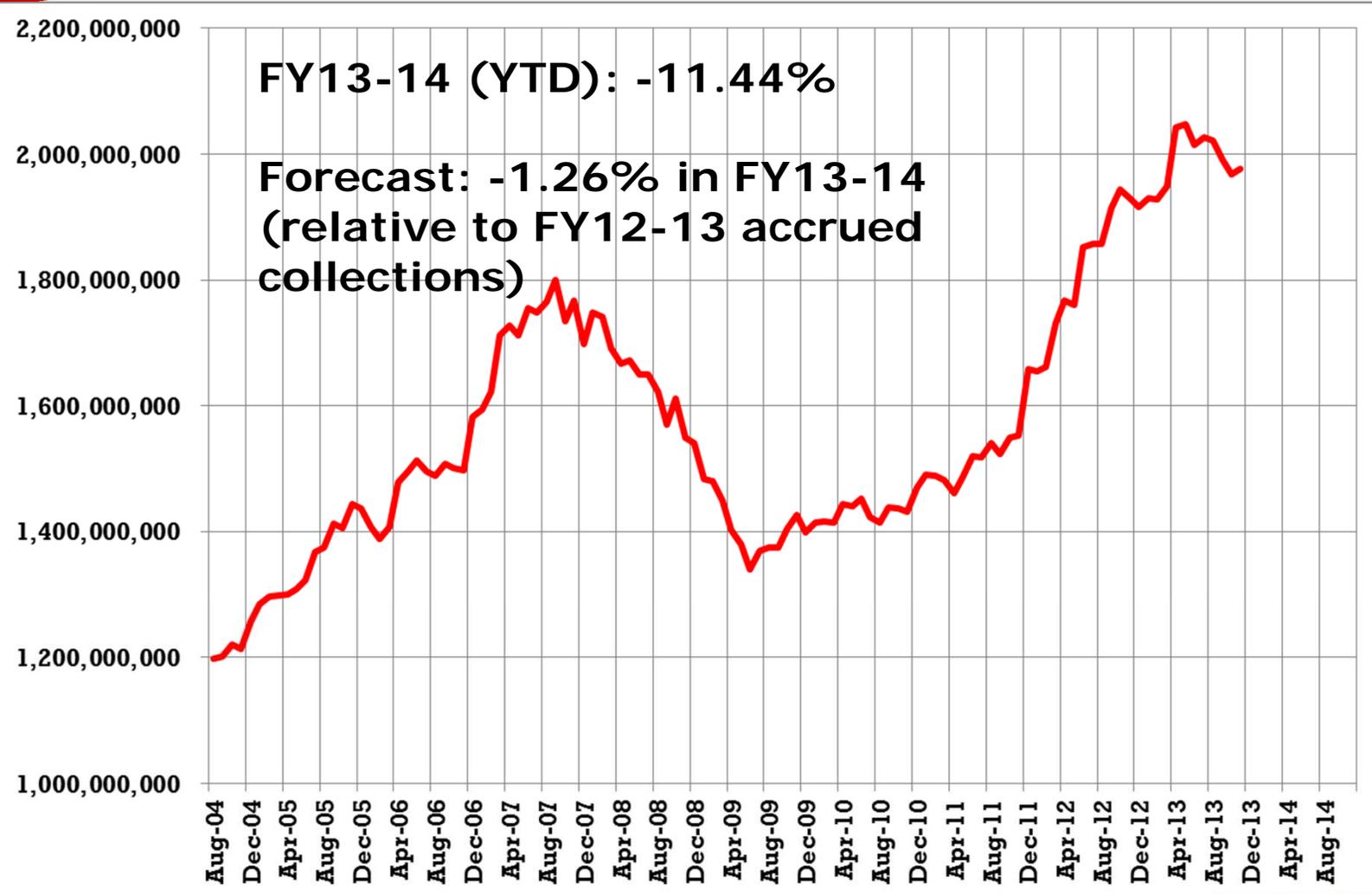


Hall Income Tax – April





Franchise and Excise Taxes (12 month MS)





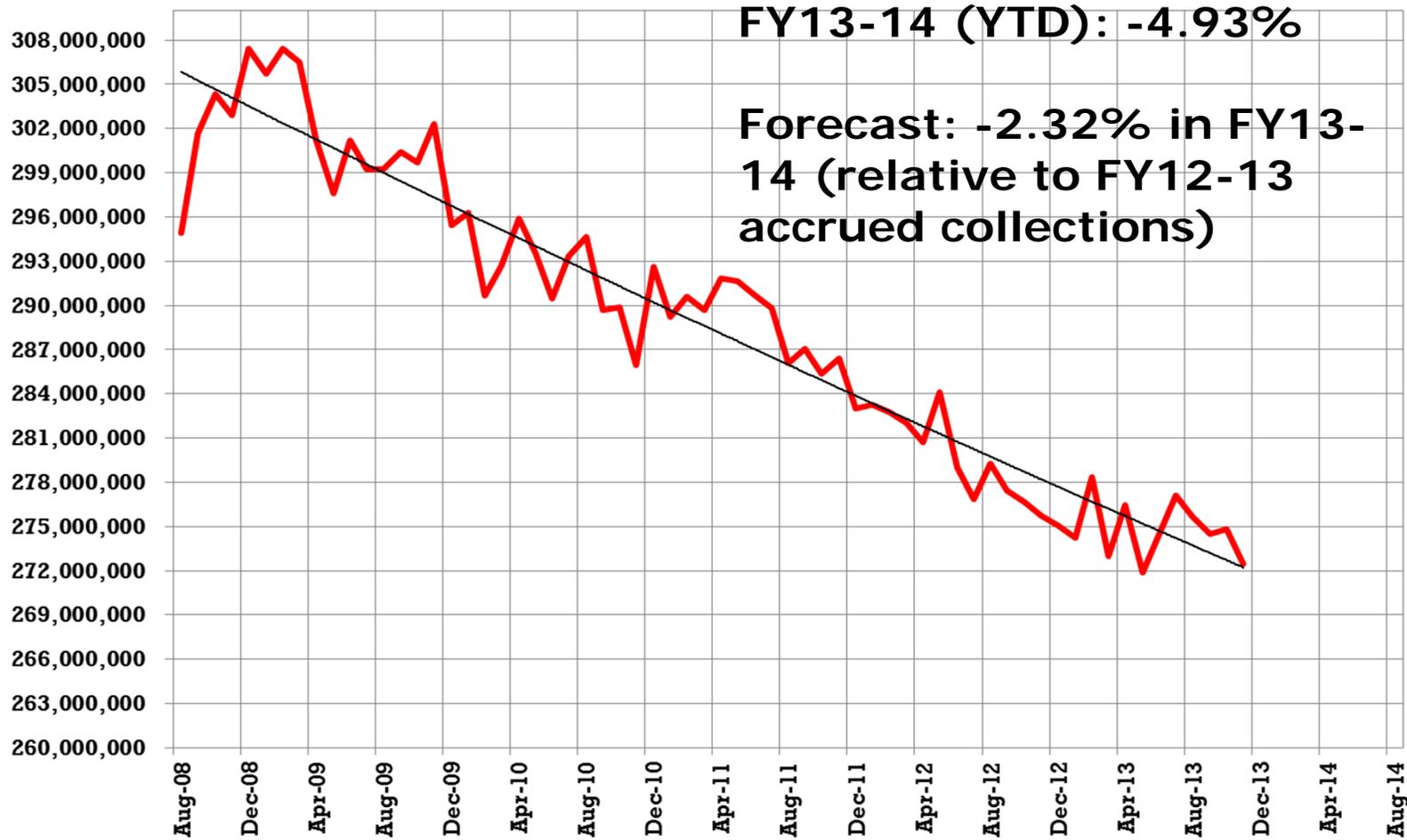
Base Analysis for F&E Taxes

	FY11-12	Growth over FY10-11	FY12-13	Growth over FY11-12	FY13-14	Growth over FY12-13
August	193.99%	10.47%	4.63%	20.37%	-10.69%	-11.41%
September*	-6.21%		22.31%		-10.37%	
October	274.54%		85.63%		-33.64%	
November	8.03%		-34.84%		30.04%	
December*	69.86%	25.51%	-5.57%	6.41%	?	1.18%
January*	-1.77%		9.42%		?	
February	20.96%		-4.55%		?	
March*	54.88%		10.15%		?	
April**	10.78%		24.92%		?	
May	-14.59%		11.58%		?	
June**	32.39%		-8.85%		?	
July	8.63%		21.54%		?	
Year-over-Year (accrual)		18.03%		8.34%		-1.26%





Tobacco Tax (12 month MS)





Growth Forecasts: FY13-14 & FY14-15

Source	FY13-14			FY14-15
	FY13-14 YTD Growth (Cash)	Growth Forecast for Remainder of FY13-14 (Cash)	Growth Forecast for FY13-14 (Accrual)*	Growth Forecast for FY14-15 (Accrual)
Sales Tax	3.51%	3.56%	3.75%	3.30%
Motor Fuels	-0.78%	0.40%	0.15%	-0.12%
Income	-22.02%	-3.61%	7.10%	4.00%
F&E	-11.41%	1.18%	-1.26%	4.01%
All Other	2.87%	-2.35%	1.48%	1.20%
Total	1.15%	1.67%	2.39%	2.91%

*Growth rate forecasts for FY13-14 are relative to FY12-13 accrual collections





Estimates for FY13-14 & FY14-15

REVENUE SOURCE	ACTUAL ACCRUAL COLLECTIONS FY12-13	FRC STAFF TAX REVENUE ESTIMATES FY13-14	PERCENT INCREASE OVER FY12-13	FRC STAFF TAX REVENUE ESTIMATES FY14-15	PERCENT INCREASE OVER FY13-14
SALES & USE TAX*	\$7,012,028,700	\$7,275,000,000	3.8%	\$7,515,000,000	3.3%
GASOLINE TAX	\$615,043,000	\$612,000,000	-0.5%	\$611,000,000	-0.2%
MOTOR FUEL TAX	\$156,993,300	\$161,700,000	3.0%	\$162,000,000	0.2%
GASOLINE INSPECTION TAX	\$62,919,900	\$62,500,000	-0.7%	\$62,200,000	-0.5%
MOTOR VEHICLE REG. TAX	\$252,893,600	\$262,000,000	3.6%	\$269,860,000	3.0%
INCOME TAX*	\$233,418,800	\$250,000,000	7.1%	\$260,000,000	4.0%
PRIVILEGE TAX - LESS EARMARKED**	\$259,758,100	\$293,000,000	12.8%	\$310,000,000	5.8%
GROSS RECEIPTS TAX: TVA	\$343,128,900	\$332,104,000	-3.2%	\$338,746,000	2.0%
GROSS RECEIPTS TAX: OTHER	\$25,117,000	\$27,800,000	10.7%	\$28,912,000	4.0%
BEER TAX*	\$17,224,300	\$18,100,000	5.1%	\$18,600,000	2.8%
ALCOHOLIC BEVERAGE TAX	\$52,116,400	\$55,500,000	6.5%	\$57,300,000	3.2%
FRANCHISE & EXCISE TAX*	\$2,020,504,700	\$1,995,000,000	-1.3%	\$2,075,000,000	4.0%
INHERITANCE TAX*	\$110,627,500	\$95,000,000	-14.1%	\$72,000,000	-24.2%
TOBACCO TAX	\$277,426,600	\$271,000,000	-2.3%	\$270,000,000	-0.4%
MOTOR VEHICLE TITLE FEES	\$11,913,600	\$12,400,000	4.1%	\$12,900,000	4.0%
MIXED DRINK TAX	\$69,580,100	\$74,500,000	7.1%	\$78,500,000	5.4%
BUSINESS TAX*	\$137,708,200	\$139,000,000	0.9%	\$142,475,000	2.5%
SEVERANCE TAX	\$2,374,200	\$2,600,000	9.5%	\$2,700,000	3.8%
AMUSEMENT TAX	\$329,900	\$350,000	6.1%	\$370,000	5.7%
UNAUTHORIZED SUBSTANCE TAX	\$4,600	\$0	N/A	\$0	N/A
TOTAL REVENUE	\$11,661,111,400	\$11,939,554,000	2.4%	\$12,287,563,000	2.9%

*Estimate adjusted for legislation enacted during the 2013 legislative session

**Privilege Tax estimates are reduced by \$43.0 million for the earmarked portion of the tax.





FY13-14: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS FY13-14	GENERAL FUND FY13-14
SALES & USE TAX	\$7,275,000,000	\$6,855,473,000
GASOLINE TAX	\$612,000,000	\$9,303,000
MOTOR FUEL TAX	\$161,700,000	\$2,989,000
GASOLINE INSPECTION TAX	\$62,500,000	\$18,250,000
MOTOR VEHICLE REGISTRATION TAX	\$262,000,000	\$46,271,000
INCOME TAX	\$250,000,000	\$162,042,000
PRIVILEGE TAX	\$293,000,000	\$289,070,000
GROSS RECEIPTS TAX: TVA	\$332,104,000	\$181,993,000
GROSS RECEIPTS TAX: OTHER	\$27,800,000	\$24,270,000
BEER TAX	\$18,100,000	\$12,202,000
ALCOHOLIC BEVERAGE TAX	\$55,500,000	\$45,931,000
FRANCHISE & EXCISE TAX	\$1,995,000,000	\$1,736,200,000
INHERITANCE TAX	\$95,000,000	\$95,000,000
TOBACCO TAX	\$271,000,000	\$271,000,000
MOTOR VEHICLE TITLE FEES	\$12,400,000	\$9,700,000
MIXED DRINK TAX	\$74,500,000	\$37,559,000
BUSINESS TAX	\$139,000,000	\$139,000,000
SEVERANCE TAX	\$2,600,000	\$1,000,000
AMUSEMENT TAX	\$350,000	\$350,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$11,939,554,000	\$9,937,603,000





FRC Estimates for FY13-14 Relative to Current Budgeted Estimates

CURRENT FRC STAFF ESTIMATE FOR FY13-14	
SALES TAX	\$7,275,000,000
FRANCHISE & EXCISE TAXES	\$1,995,000,000
ALL FUNDS	\$11,939,554,000
GENERAL FUND	\$9,937,603,000
CURRENT BUDGETED ESTIMATE FOR FY13-14	
SALES TAX	\$7,288,400,000
FRANCHISE & EXCISE TAXES	\$2,135,900,000
ALL FUNDS	\$12,052,200,000
GENERAL FUND	\$10,065,800,000
EST. OVERAGE/(SHORTAGE) COMPARED TO CURRENT BUDGETED ESTIMATE FOR FY13-14:	
SALES TAX	(\$13,400,000)
FRANCHISE & EXCISE TAXES	(\$140,900,000)
ALL FUNDS	(\$112,646,000)
GENERAL FUND	(\$128,197,000)
ACT. GENERAL FUND FOR FY12-13:	\$9,716,191,600
EST. GENERAL FUND INCREASE OVER FY12-13:	\$221,411,400





FY14-15: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY14-15</u>	<u>FY14-15</u>
SALES & USE TAX	\$7,515,000,000	\$7,081,633,000
GASOLINE TAX	\$611,000,000	\$9,288,000
MOTOR FUEL TAX	\$162,000,000	\$2,994,000
GASOLINE INSPECTION TAX	\$62,200,000	\$18,162,000
MOTOR VEHICLE REGISTRATION TAX	\$269,860,000	\$47,659,000
INCOME TAX	\$260,000,000	\$168,523,000
PRIVILEGE TAX	\$310,000,000	\$305,842,000
GROSS RECEIPTS TAX: TVA	\$338,746,000	\$185,633,000
GROSS RECEIPTS TAX: OTHER	\$28,912,000	\$25,241,000
BEER TAX	\$18,600,000	\$12,539,000
ALCOHOLIC BEVERAGE TAX	\$57,300,000	\$47,421,000
FRANCHISE & EXCISE TAX	\$2,075,000,000	\$1,805,822,000
INHERITANCE TAX	\$72,000,000	\$72,000,000
TOBACCO TAX	\$270,000,000	\$270,000,000
MOTOR VEHICLE TITLE FEES	\$12,900,000	\$10,200,000
MIXED DRINK TAX	\$78,500,000	\$39,575,000
BUSINESS TAX	\$142,475,000	\$142,475,000
SEVERANCE TAX	\$2,700,000	\$1,000,000
AMUSEMENT TAX	\$370,000	\$370,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$12,287,563,000	\$10,246,377,000





Tennessee Education Lottery

Estimates for Net Lottery Proceeds & After-School Funding

Prepared by:

Robert Currey, Fiscal Review Committee

December 10, 2013





Historical Results

	<i>FY09-10</i>	<i>FY10-11</i>	<i>FY11-12</i>	<i>FY12-13</i>
<i>Total Revenue</i>	\$1,064,551,086	\$1,106,678,193	\$1,221,573,973	\$1,280,366,277
<i>Prize Expense</i>	\$664,041,523	\$695,149,156	\$770,568,219	\$812,547,301
<i>Retailer Commissions</i>	\$74,331,114	\$77,456,838	\$85,525,965	\$89,258,881
<i>Operating Expense</i>	\$15,139,680	\$15,698,291	\$17,212,674	\$16,916,511
<i>Other Expenses</i>	\$35,060,222	\$36,527,537	\$37,917,640	\$40,101,263
<i>Total Expenses</i>	\$788,572,539	\$824,831,822	\$911,224,498	\$958,823,956
<i>Net Lottery Proceeds</i>	\$275,978,547	\$281,846,371	\$310,349,475	\$321,542,321
<i>After-School Funding</i>	\$12,893,630	\$11,643,581	\$13,089,186	\$18,170,504
<i>Total State Proceeds</i>	\$288,872,177	\$293,489,952	\$323,438,661	\$339,712,825





FY12-13

	FY11-12	FY12-13	Growth Rate	Dollar Growth
Instant Games (Net)	\$955,253,709	\$996,423,521	4.3%	\$41,169,812
Cash 3 and Cash 4	\$85,667,148	\$86,382,831	0.8%	\$715,683
PB, MM, & Hot Lotto	\$156,708,747	\$167,542,663	6.9%	\$10,833,916
Tennessee Cash	\$19,222,943	\$24,871,472	29.4%	\$5,648,529
Misc. Revenue	\$4,721,426	\$5,145,790	9.0%	\$424,364
TOTAL NET REVENUE	\$1,221,573,973	\$1,280,366,277	4.8%	\$58,792,304
Less: Total Expenses	\$911,224,498	\$958,823,956	5.2%	\$47,599,458
NET LOTTERY PROCEEDS	<u>\$310,349,475</u>	<u>\$321,542,321</u>	3.6%	<u>\$11,192,846</u>
After-School Proceeds	\$13,089,186	\$18,170,504	38.8%	\$5,081,318
TOTAL STATE PROCEEDS	<u>\$323,438,661</u>	<u>\$339,712,825</u>	5.0%	<u>\$16,274,164</u>





Instant Game Growth in FY12-13

Price Point	Percent of Instant Game Sales	FY11-12 Gross Sales (Millions)	FY12-13 Gross Sales (Millions)	Percent Sales Growth	Dollar Growth (Millions)
\$1	8.9%	\$105.1	\$96.4	-8.3%	-\$8.7
\$2	21.1%	\$235.8	\$229.7	-2.6%	-\$6.1
\$3	7.3%	\$74.3	\$79.4	6.9%	\$5.1
\$5	24.8%	\$278.3	\$270.3	-2.9%	-\$8.0
\$10	15.6%	\$150.0	\$169.7	13.1%	\$19.7
\$20	18.8%	\$206.2	\$204.6	-0.8%	-\$1.6
\$25	3.6%	\$0.0	\$39.0	N/A	\$39.0





Powerball Growth in FY12-13

- *FY11-12 sales: \$102,751,152*
- *FY12-13 sales: \$133,207,374*
- *FY12-13 dollar growth: + \$30,456,222*
- *FY12-13 percent growth: + 29.6%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$200.0 Million or More</i>	<i>Jackpot Winners</i>
FY11-12	\$86,100,000	\$336,400,000	8	13
FY12-13	\$121,600,000	\$590,500,000	16	15





Mega Millions Growth in FY12-13

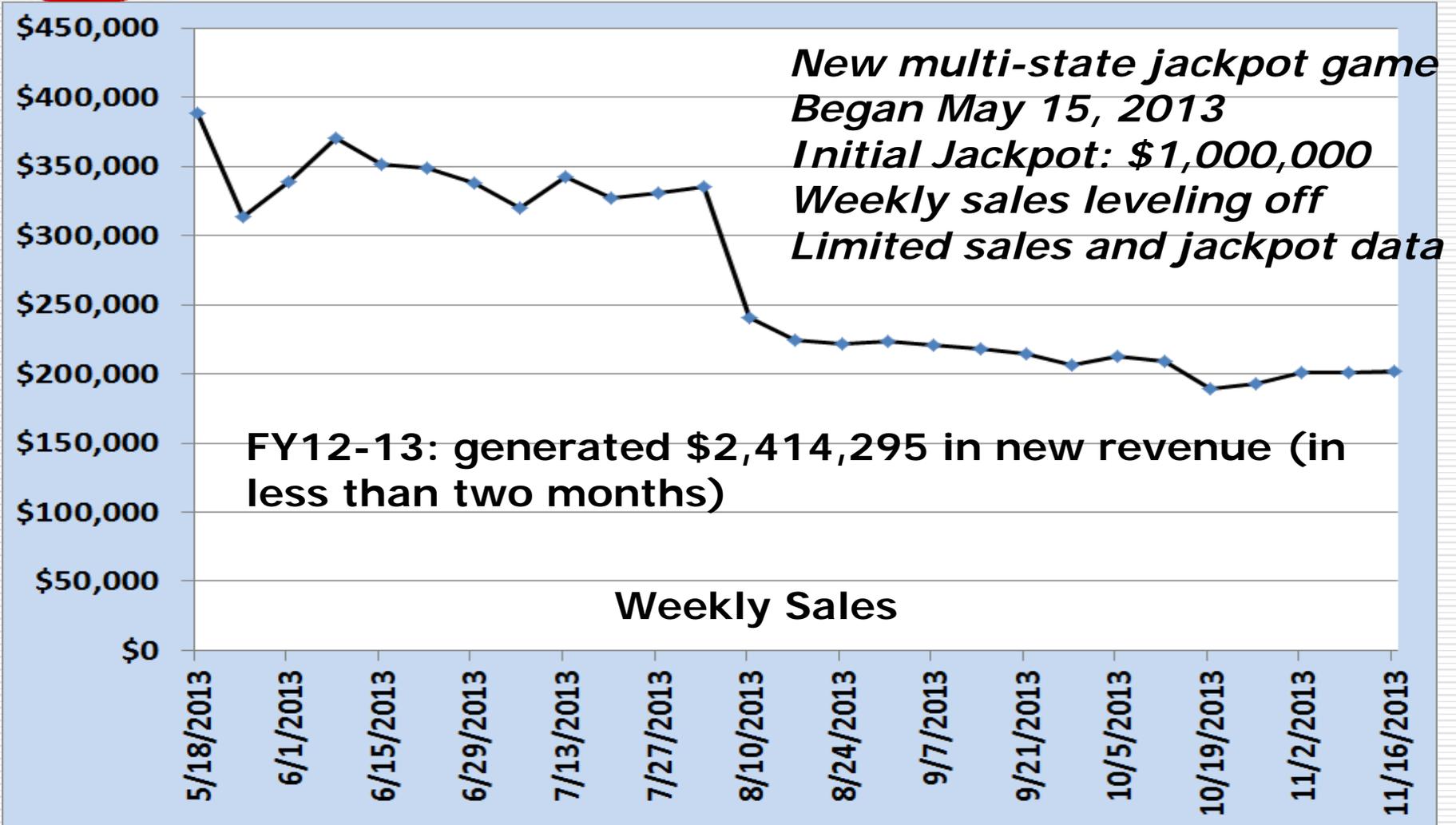
- *FY11-12 sales: \$53,957,595*
- *FY12-13 sales: \$31,920,994*
- *FY12-13 dollar growth: - \$22,036,601*
- *FY12-13 percent growth: - 40.8%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$100.0 Million or More</i>	<i>Jackpot Winners</i>
FY11-12	\$68,700,000	\$640,000,000	19	11
FY12-13	\$42,900,000	\$190,000,000	9	15





Hot Lotto (Since Inception)





Tennessee Cash Growth in FY12-13

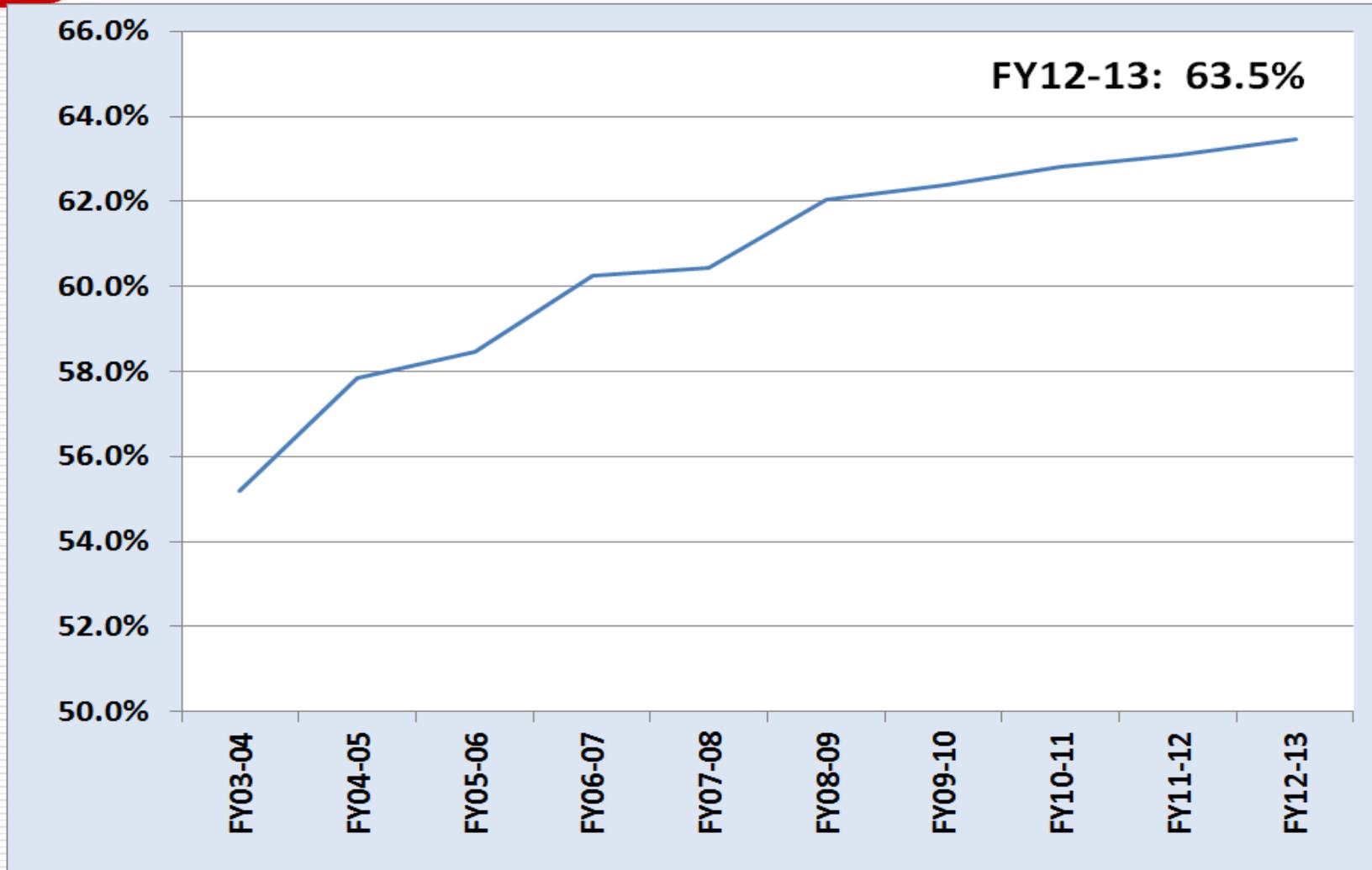
- *FY11-12 sales: \$19,222,943*
- *FY12-13 sales: \$24,871,472*
- *FY12-13 dollar growth: + \$5,648,529*
- *FY12-13 percent growth: + 29.38%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$750,000 or More</i>	<i>Jackpot Winners</i>
FY11-12	\$378,600	\$977,862	8	18
FY12-13	\$514,400	\$2,219,462	28	11



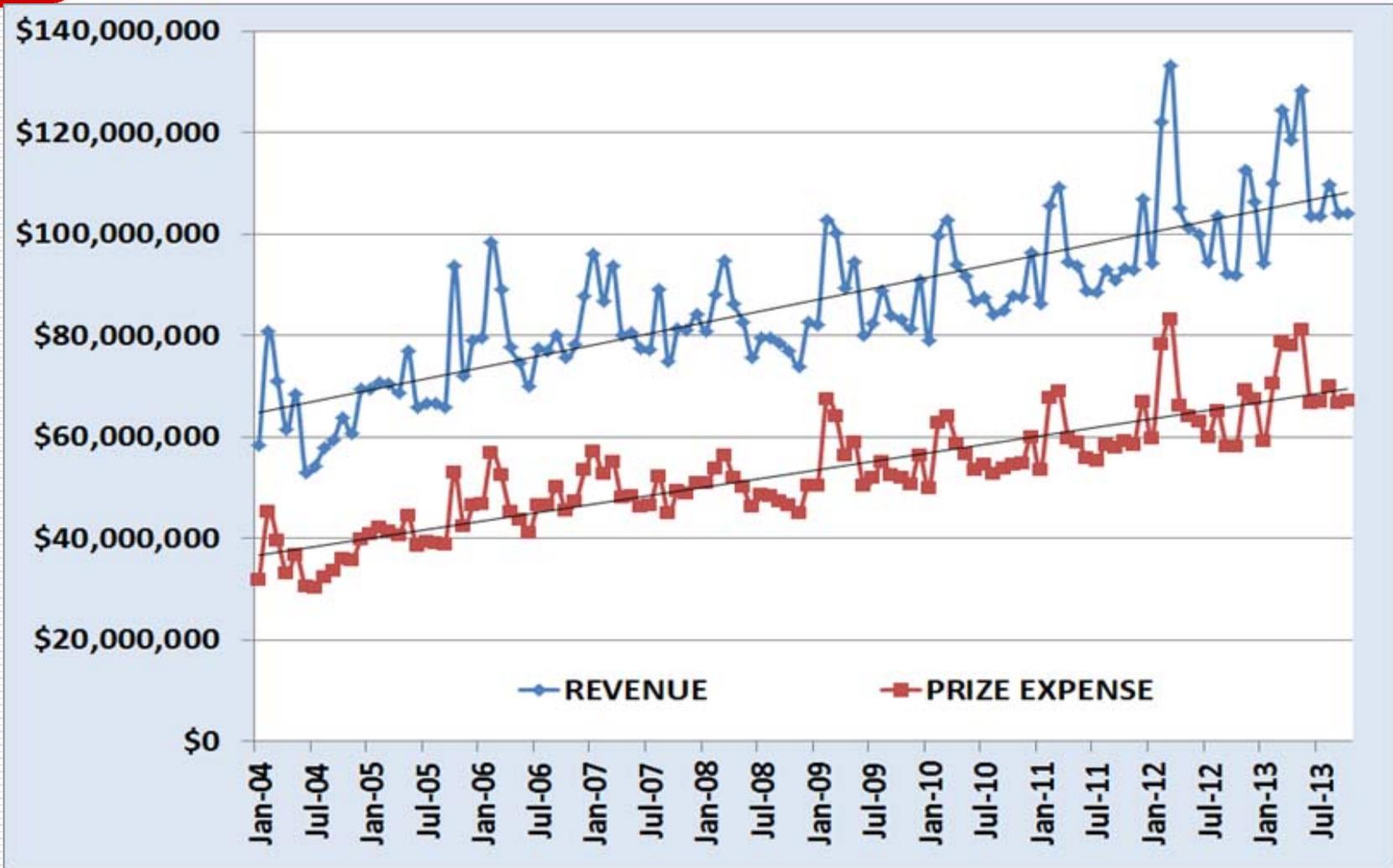


Prize Expense (as % of Revenue)



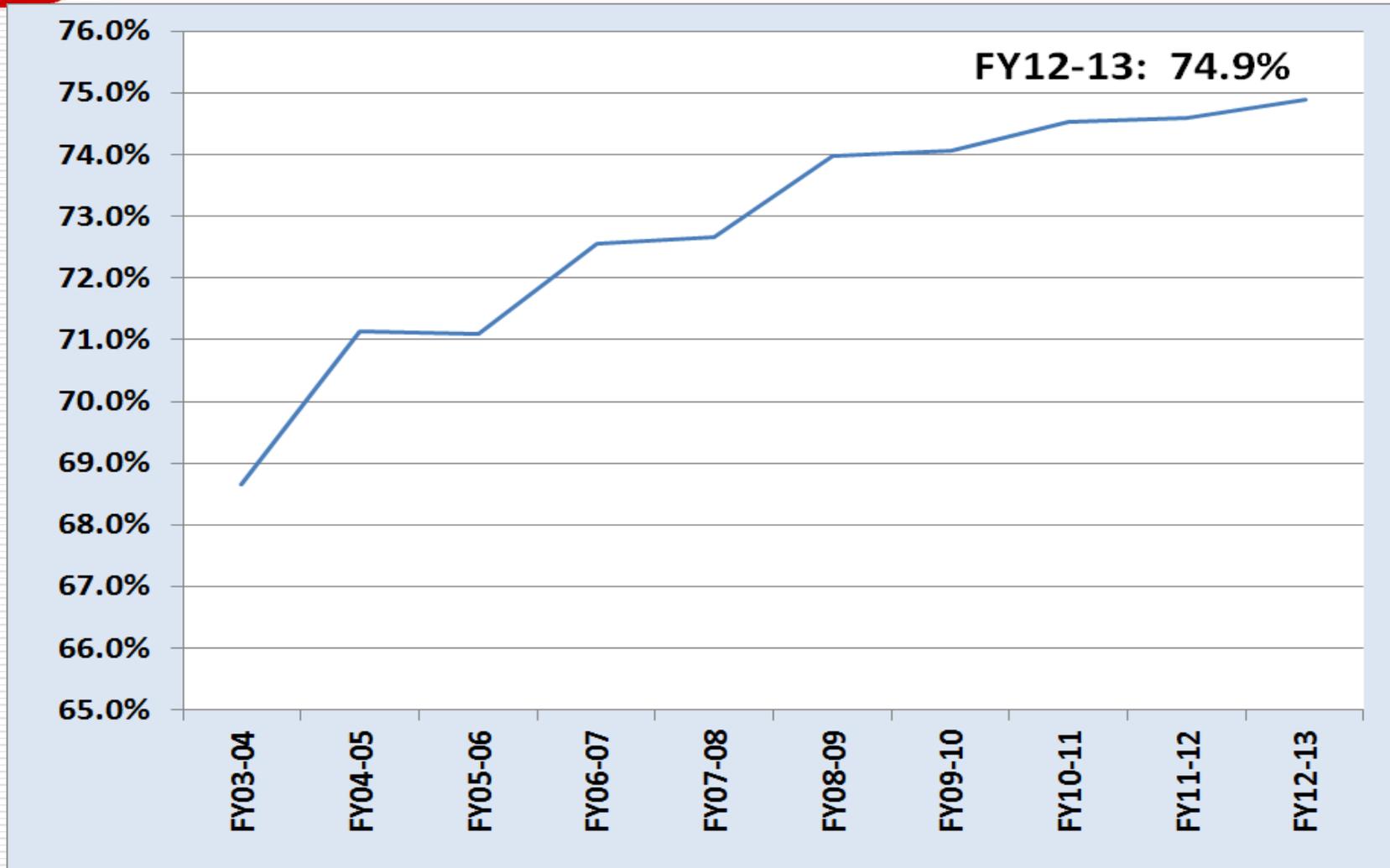


Revenue & Prize Expense (\$)



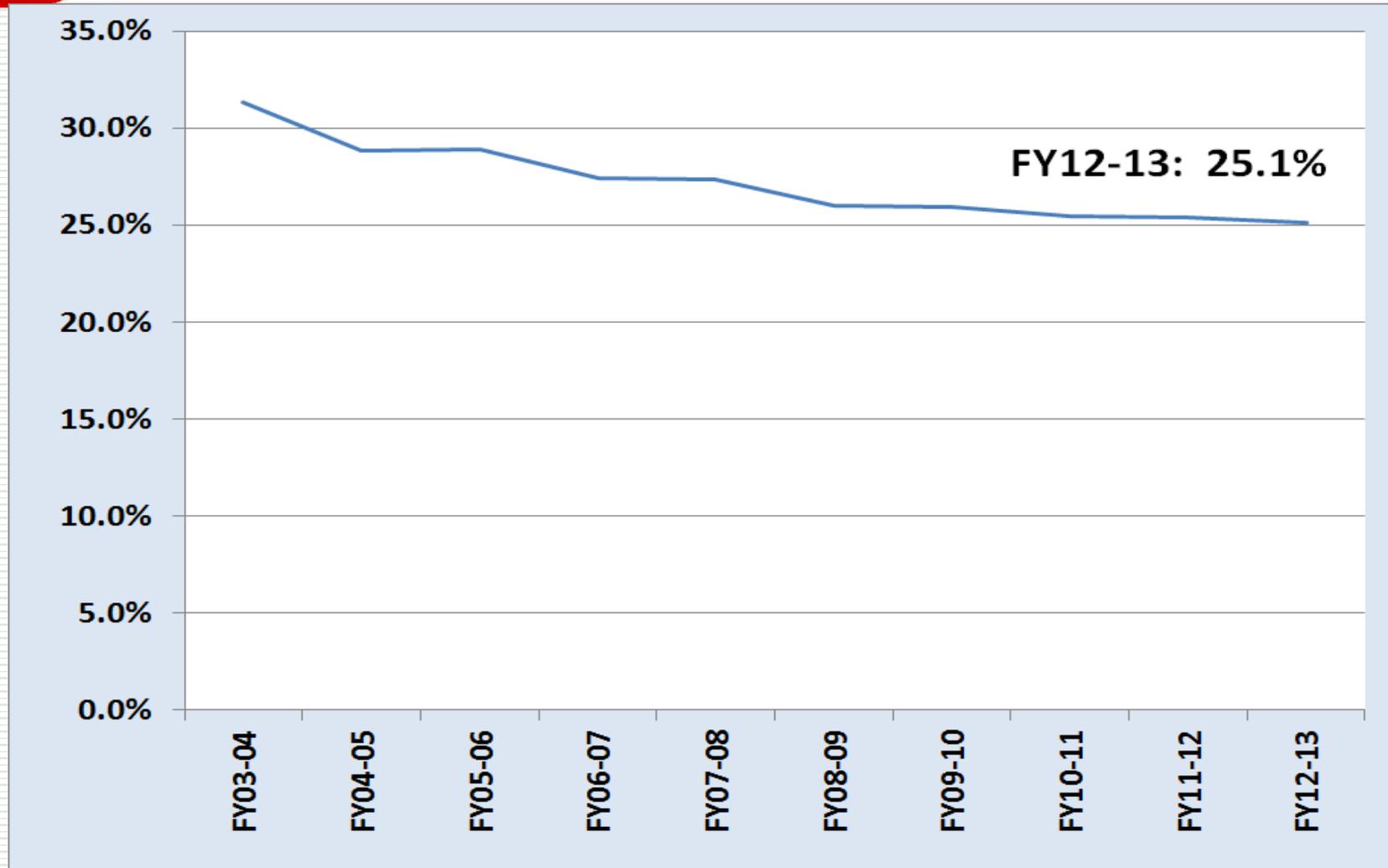


Total Expenses (as a % of Revenue)





Net Lottery Proceeds (as a % of Revenue)





Net Lottery Proceeds (\$ for Education)

<u><i>Fiscal Year</i></u>	<u><i>Total \$</i></u>	<u><i>\$ Change</i></u>	<u><i>% Change</i></u>
FY03-04	\$123,271,644	N/A	N/A
FY04-05	\$227,423,212	\$104,151,568	84.5%
FY05-06	\$269,862,275	\$42,439,063	18.7%
FY06-07	\$271,968,491	\$2,106,216	0.8%
FY07-08	\$272,415,567	\$447,076	0.2%
FY08-09	\$265,486,128	-\$6,929,439	-2.5%
FY09-10	\$275,978,547	\$10,492,419	4.0%
FY10-11	\$281,846,371	\$5,867,824	2.1%
FY11-12	\$310,349,475	\$28,503,104	10.1%
FY12-13	\$321,542,321	\$11,192,846	3.6%





FY13-14: Year-to-Date

- As of October 31, 2013*
- Total Net Revenue: + 10.3%*
 - *Instant Games: + 9.4%*
 - *Cash 3 and Cash 4: + 5.6%*
 - *Powerball, Mega Millions, & Hot Lotto: + 21.2%*
 - *Tennessee Cash: - 9.4%*
- Total Expenses: + 12.2%*
 - *Prize Expense: + 12.0%*
 - *Total Expenses / Total Net Revenue: 75.6%*
- Net Lottery Proceeds (NLP): + 4.79%*
 - *Net Lottery Proceeds / Total Net Revenue: 24.4%*





Assumptions for FY13-14

- *No new multi-jurisdictional games*
- *No additional changes to PB, MM, or Hot Lotto*
- *No new TN-exclusive online games*
- *No changes to Cash 3, Cash 4, or TN Cash*
- *Launch of at least one spotlight instant game*
- *At least 1 PB jackpot cycle above \$300 million*
- *At least 1 MM jackpot cycle above \$150 million*
- *No extraordinary changes to the retailer base*
- *No legislative changes*
- *Total Expenses = 75.5% of Total Net Revenue*
- *Net Lottery Proceeds = 24.5% of Total Net Revenue*





FY13-14 Estimates

	Low	Median	Upper
Instant Games (Net)	\$1,050,000,000	\$1,060,000,000	\$1,070,000,000
Cash 3 and Cash 4	\$85,000,000	\$86,000,000	\$87,000,000
PB, MM, and Hot Lotto	\$174,000,000	\$182,000,000	\$190,000,000
Tennessee Cash	\$21,000,000	\$22,000,000	\$23,000,000
Misc. Revenue	\$5,000,000	\$5,100,000	\$5,200,000
Total Net Revenue	\$1,335,000,000	\$1,355,100,000	\$1,375,200,000
Total Expenses (75.5%)	\$1,007,900,000	\$1,023,100,000	\$1,038,300,000
NET LOTTERY PROCEEDS (24.5%)	\$327,100,000	<u>\$332,000,000</u>	\$336,900,000
After-School Funding	\$13,000,000	\$14,000,000	\$15,000,000
TOTAL STATE PROCEEDS	\$340,100,000	<u>\$346,000,000</u>	\$351,900,000





Assumptions for FY14-15

- *No new multi-jurisdictional games*
- *No changes to PB, MM, or Hot Lotto*
- *No new TN-exclusive online games*
- *No changes to Cash 3, Cash 4, or TN Cash*
- *Launch of at least one spotlight instant game*
- *At least 2 PB jackpot cycles above \$300 million*
- *At least 2 MM jackpot cycles above \$150 million*
- *No extraordinary changes to the retailer base*
- *No legislative changes*
- *Total Expenses = 75.7% of Total Net Revenue*
- *Net Lottery Proceeds = 24.3% of Total Net Revenue*





FY14-15 Estimates

	Low	Median	Upper
Instant Games (Net)	\$1,090,000,000	\$1,100,000,000	\$1,110,000,000
Cash 3 and Cash 4	\$84,000,000	\$86,000,000	\$88,000,000
PB, MM, and Hot Lotto	\$170,000,000	\$182,000,000	\$194,000,000
Tennessee Cash	\$20,000,000	\$22,000,000	\$24,000,000
Misc. Revenue	\$5,100,000	\$5,200,000	\$5,300,000
Total Net Revenue	\$1,369,100,000	\$1,395,200,000	\$1,421,300,000
Total Expenses (75.7%)	\$1,036,400,000	\$1,056,200,000	\$1,075,900,000
NET LOTTERY PROCEEDS (24.3%)	\$332,700,000	<u>\$339,000,000</u>	\$345,400,000
After-School Funding	\$13,000,000	\$14,000,000	\$15,000,000
TOTAL STATE PROCEEDS	\$345,700,000	<u>\$353,000,000</u>	\$360,400,000





Subsequent Years

- **Growth beyond FY14-15 is difficult to forecast due to a number of unknown factors such as:**
 - *Changes to payout ratios*
 - *Matrix changes to jackpot based games*
 - *Structure changes to pari-mutuel and online games*
 - *Legislative action*
 - *Varying jackpot cycles*
 - *New and discontinued games*
 - *Changes to retailer base*
 - *Changes in advertising*
 - *Changes in economy*
 - *Changes in gas prices*





FY15-16, FY16-17 and FY17-18

Estimated Growth for Total Net Revenue: 3.0% per year

Estimated Growth for Net Lottery Proceeds: 2.0% per year

	FY15-16	FY16-17	FY17-18
Total Net Revenue	\$1,437,056,000	\$1,480,168,000	\$1,524,573,000
Total Expenses	\$1,091,276,000	\$1,127,472,000	\$1,164,823,000
Net Lottery Proceeds	<u>\$345,780,000</u>	<u>\$352,696,000</u>	<u>\$359,750,000</u>
After-School Funding	\$14,500,000	\$14,500,000	\$15,000,000
Total State Proceeds	<u>\$360,280,000</u>	<u>\$367,196,000</u>	<u>\$374,750,000</u>

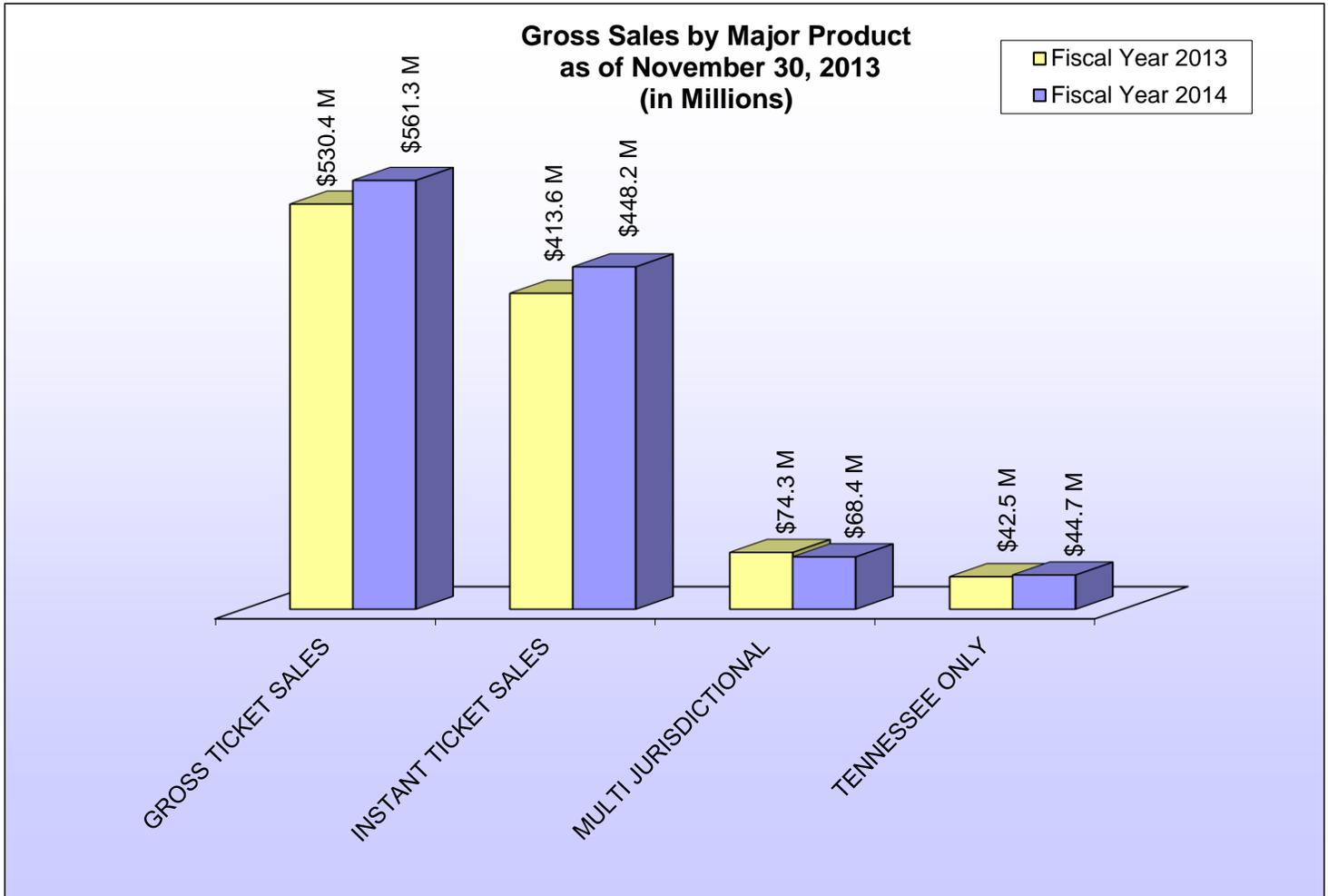


TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
December 10, 2013

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2014, 2015, 2016, 2017 and 2018

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014



Gross ticket sales at November 30, 2013 were \$561.3 million or \$25.7 million per week compared to the prior year of \$530.4 million or \$24.3 million per week, representing a year over year increase of 5.8%.

Instant ticket sales were \$448.2 million or \$20.5 million per week at November 30, 2013 compared to \$413.6 million or \$18.9 million per week the prior year, representing an 8.4% increase in instant ticket sales year over year.

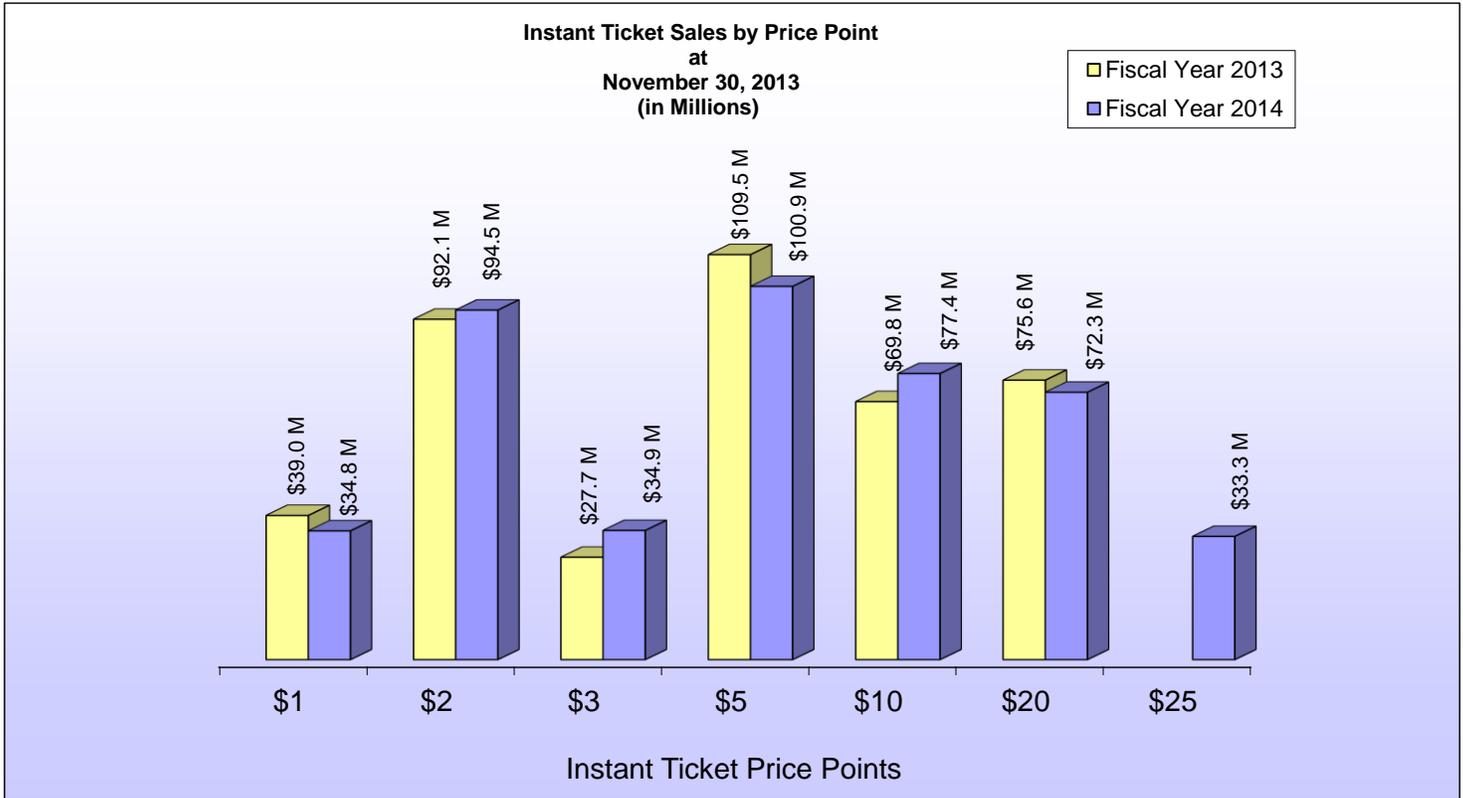
Multi-jurisdictional games, *Powerball*, *Mega Millions* and *Hot Lotto*, were \$68.4 million compared to \$74.3 million. The decline in this category is due to current year sales for *Powerball* being lower than the prior year, which included a \$587.5 million *Powerball* jackpot.

Tennessee Only games, *Cash 3*, *Cash 4* and *Tennessee Cash*, are 5.2% ahead of last year. At November 30, 2013, sales for this category were \$44.7 million compared to the prior period's \$42.5 million. All three products in this category are slightly ahead of the prior year.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014

	As of 11/30/13 (in millions)	Projected Annual Sales Range (in millions)
<i>INSTANT GAMES</i>	\$ 448.2	\$1,154.0 - \$1,165.0



- Instant tickets are projected to be between \$1,154.0 million and \$1,165.0 million. Instant tickets are projected to be approximately 80% of revenues, with prize expense payout percentage to increase approximately 1% year over year to 68.5%.
- In April 2013, TEL launched its first \$25 price point product, \$5 Million Spectacular, featuring the largest top prize of any instant game in Tennessee Lottery history. In May 2013, the popular Jumbo Bucks Seasons series was launched at the \$3 price point. These products are expected to remain in the market for the remainder of fiscal year 2014.
- TEL anticipates launching approximately 47 games in fiscal year 2014 including a special 10th anniversary game and a \$30 price point game.

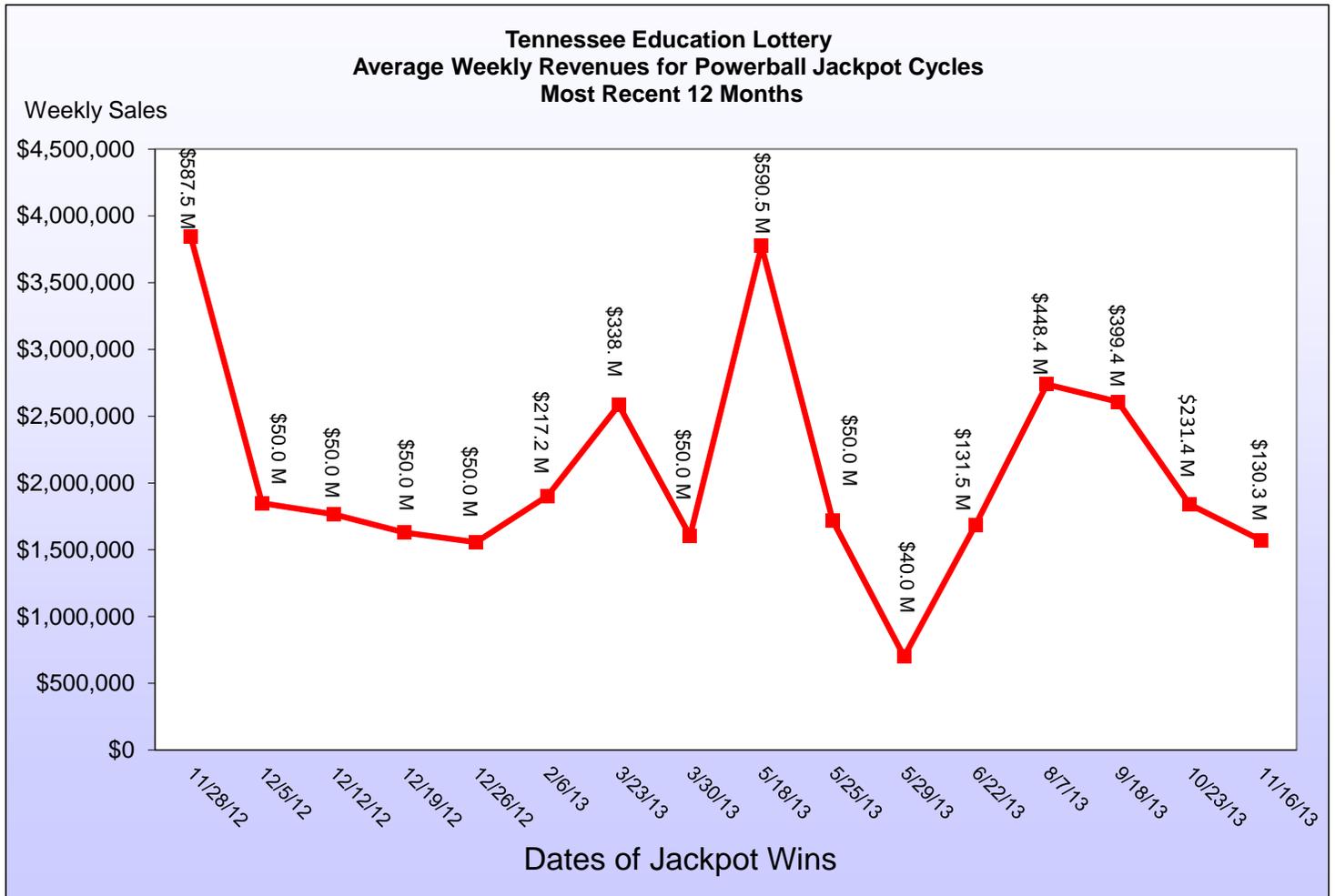
**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014

MULTI-JURISDICTIONAL GAMES

	As of 11/30/13 (in millions)	Projected Annual Sales Range (in millions)
POWERBALL	\$49.4	\$141.0 - \$149.0

- *Powerball* sales are averaging \$2.5 million per week through November 30, 2013.
- Multi-jurisdictional sales are directly impacted by the size of the games' jackpots.
- TEL's *Powerball* sales were \$49.4 million compared to the prior year's \$60.4 million. This decline is directly attributable to the \$587 million jackpot cycle experienced in November 2012.
- TEL's projected sales include two additional jackpots in the \$400 + million range for fiscal year 2014.

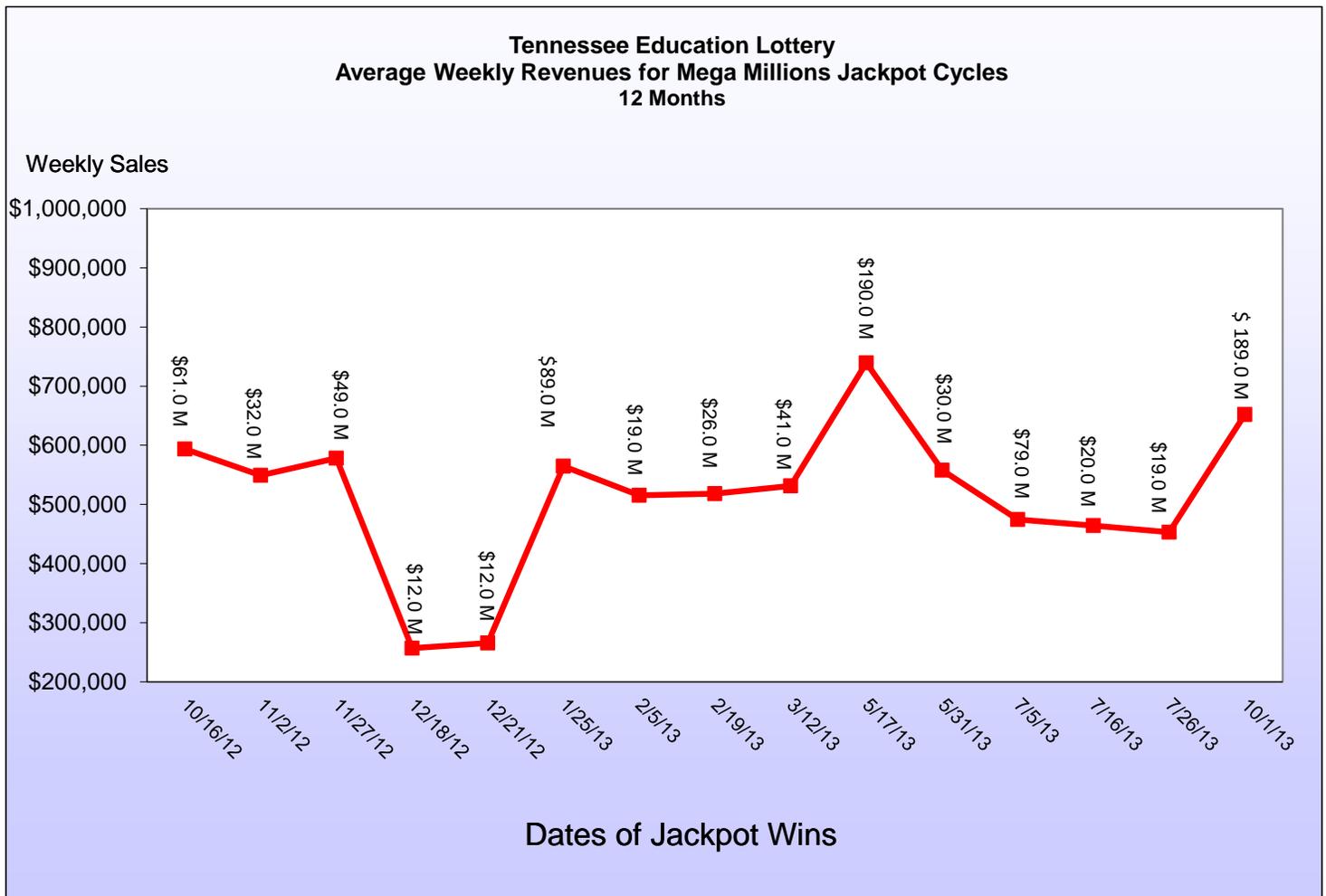


**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014

	As of 11/30/13 (in millions)	Projected Annual Sales Range (in millions)
MEGA MILLIONS	\$13.7	\$35.0 -\$40.0

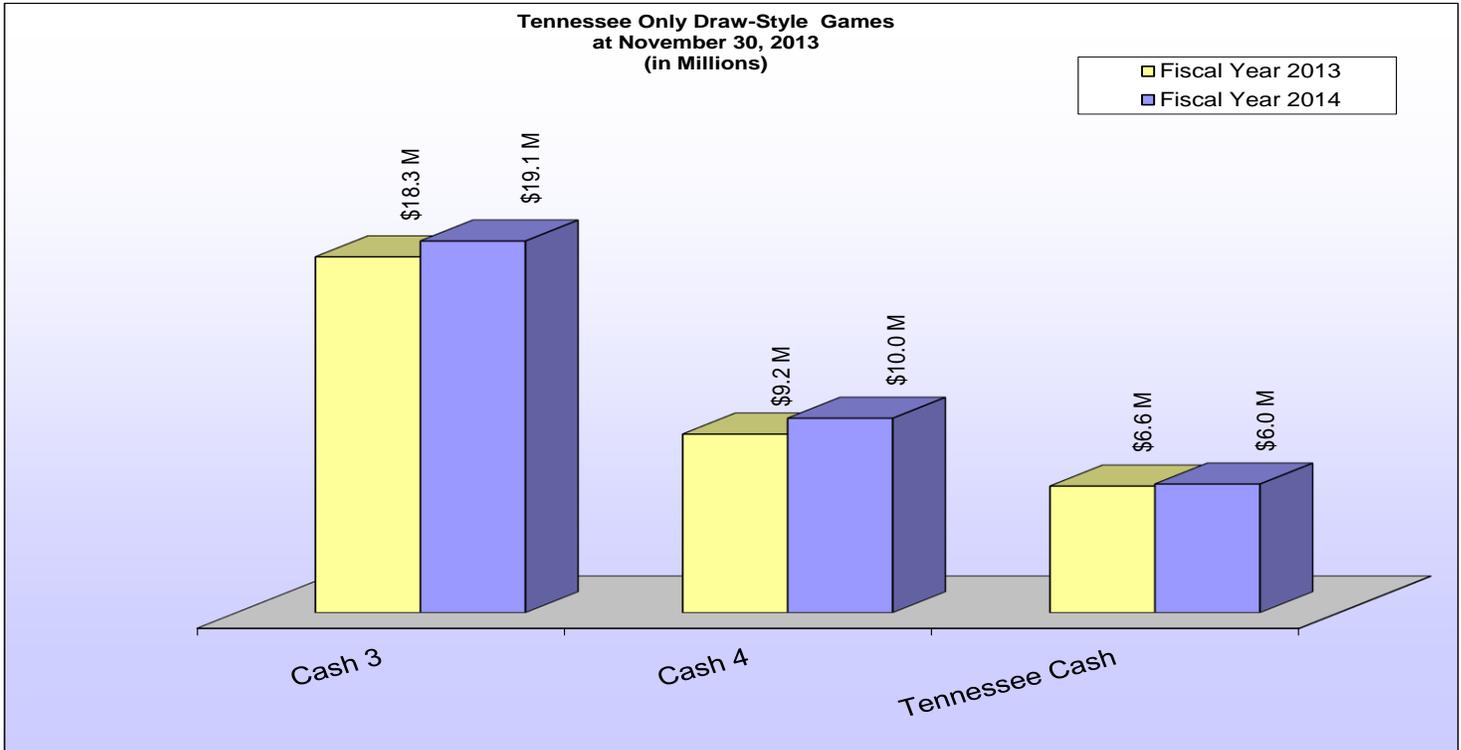
- *Mega Millions* sales are averaging \$633 thousand per week through November 30, 2013, with the largest jackpot to date of \$189 million.
- Starting with the October 22, 2013 drawing, Mega Millions players saw changes that include larger starting jackpots, faster growing jackpots, a million-dollar second prize and better odds of winning any prize. With these changes, TEL is projecting sales to be \$35 - \$40 million for fiscal year 2014.



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014

	As of 11/30/13 (in millions)	Projected Annual Sales Range (in millions)
<i>TENNESSEE ONLY DRAWING-STYLE GAMES</i>	\$44.7	\$106.0 - \$108.0



Cash 3 and Cash 4

- *Cash 3* and *Cash 4* are daily drawing-style games drawn three (3) times daily, six (6) days a week, and once on Sunday.
- As of November 30, 2013, *Cash 3* and *Cash 4* sales weekly average of \$1.7 million is trending in line with the prior fiscal year.
- Fiscal year 2014 projected sales are \$58 million for *Cash 3* and \$29 million for *Cash 4*, which is consistent with the prior year.

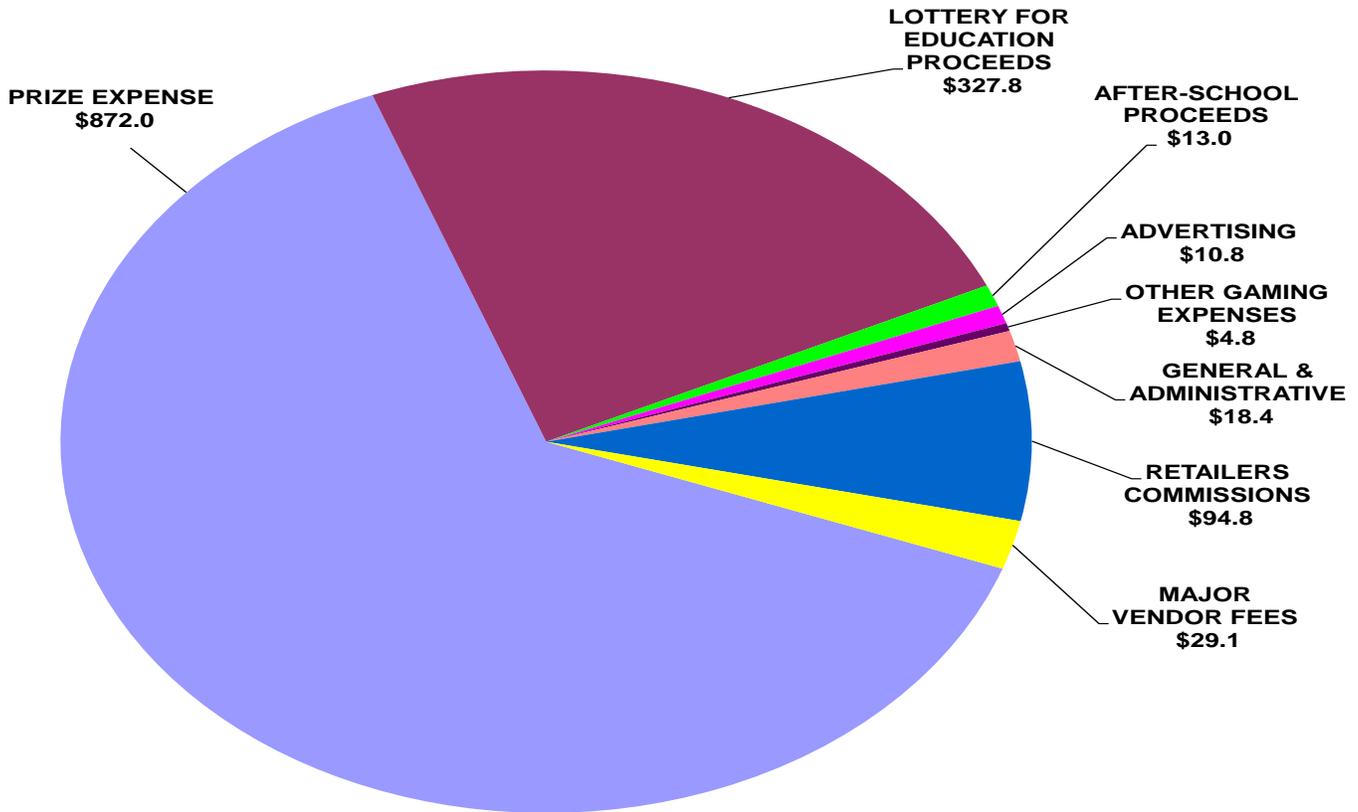
Tennessee Cash

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- TEL currently projects *Tennessee Cash* sales of \$20 - \$22 million for fiscal year 2014.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014

**FISCAL YEAR 2014 PROJECTED EXPENSES
(in millions)**



Direct Gaming-Related Expenses

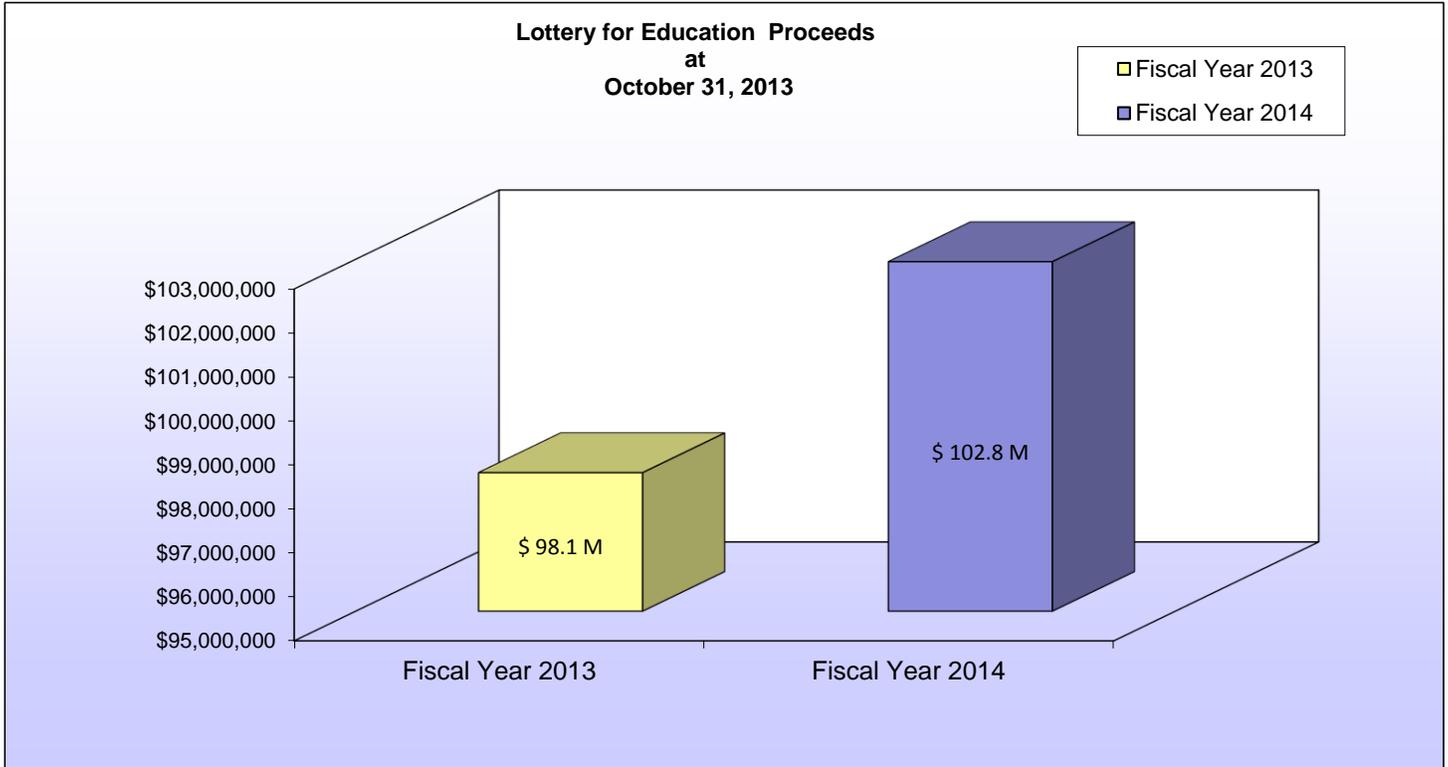
- Aggregate Prize Expense for Instant Games is projected at **68.5%** of Total Revenues.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues.
- Aggregate Prize Expense for all Games is projected at **64.3%** of Total Revenues.
- Retailer sales commissions are **6.5%** of Gross Sales, with additional commissions for selling winning drawing-style tickets of \$1 million or more and cashing tickets for *Cash 3* and *Cash 4*.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.24%** of net ticket sales of all drawing-style games.

Non-Direct Expenses

- Advertising is estimated at **\$ 10.8 million** or **.8%** of Gross Sales.
- Other Gaming is estimated at **\$ 4.8 million** or **.4%** of Gross Sales.
- General and Administrative is estimated at **\$ 18.4 million**, or **1.4%** of Gross Sales.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014



Lottery for Education Proceeds

- \$102.8 million as of 10/31/2013
- \$ 98.1 million as of 10/31/2012

Projected Fiscal Year 2014 Range

\$328 – \$333 Million

After-School Program Proceeds

- \$1.2 million as of 10/31/2013
- \$7.7 million as of 10/31/2012
- Represents actual/realized unclaimed monies
- Significantly impacted by: (1) timing of instant games' closings and (2) large drawing-style game prizes not claimed
- Fiscal year 2013 included unclaimed draw-style prizes at October 31, 2012 of \$1.8 million from large prizes that went unclaimed.
- Fiscal year 2013 included \$4 million from September 2012 instant games' close.

Projected Fiscal Year 2014 Range

\$13 - \$14 Million

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2014

	Fiscal Year 2013 Actual	Fiscal Year 2014 Low Range	Fiscal Year 2014 High Range	Fiscal Year 2014 Approved Budget
Lottery Proceeds				
Sales:				
Instant Games	\$ 1,088,740,000	\$ 1,154,064,000	\$ 1,154,064,000	\$ 1,123,000,000
Drawing-Style Games	278,797,000	299,707,000	311,695,000	280,145,000
Gross Ticket Sales	\$ 1,367,537,000	\$ 1,453,771,000	\$ 1,465,759,000	\$ 1,403,145,000
Free Tickets				
Instant Games	\$ (90,318,000)	\$ (98,095,000)	\$ (98,095,000)	\$ (101,070,000)
Drawing-Style Games	\$ (1,998,000)	\$ (1,645,000)	\$ (1,711,000)	\$ (1,600,000)
Less: Tickets Provided as Prizes	(92,316,000)	(99,740,000)	(99,806,000)	(102,670,000)
Net Ticket Sales	\$ 1,275,221,000	\$ 1,354,031,000	\$ 1,365,953,000	\$ 1,300,475,000
Other Revenues	5,146,000	4,100,000	4,200,000	3,615,000
Total Lottery Proceeds (Net Revenues)	\$ 1,280,367,000	\$ 1,358,131,000	\$ 1,370,153,000	\$ 1,304,090,000
Expenses:				
Prize Winnings	\$ 812,547,000	\$ 872,370,000	\$ 878,331,000	\$ 829,330,000
Retailer Commissions	89,259,000	94,850,000	95,632,000	90,083,000
Vendor Fees	27,431,000	29,084,000	29,430,000	27,968,000
Direct Expenses	\$ 929,237,000	\$ 996,304,000	\$ 1,003,393,000	\$ 947,381,000
Non Direct Expenses	29,588,000	33,979,000	33,979,000	33,979,000
Total Expenses	\$ 958,825,000	\$ 1,030,283,000	\$ 1,037,372,000	\$ 981,360,000
Lottery for Education Proceeds	\$ 321,542,000	\$ 327,848,000	\$ 332,781,000	\$ 322,730,000
After-School Program Proceeds	\$ 18,170,000	\$ 13,000,000	\$ 14,000,000	\$ 13,000,000

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEARS ENDING JUNE 30, 2015, 2016, 2017 and 2018

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Total Lottery Proceeds	\$1,406 - \$1,417 Million	\$1,462- \$1,474 Million	\$1,520- \$1,533 Million	\$1,581- \$1,594 Million
Lottery for Education Proceeds	\$334-\$339 Million	\$341 -\$346 Million	\$347-\$353 Million	\$354-\$360 Million
After-School Programs Proceeds	\$13 - \$14 Million	\$14 - \$15 Million	\$14 - \$15 Million	\$15 - \$16 Million
Total Education Funding	\$347 - \$353 Million	\$355 - \$361 Million	\$361 - \$368 Million	\$369 - \$376 Million

Over the last five (5) fiscal years, TEL’s average Lottery for Education proceeds growth was more than double (3.2%) the lottery industry’s beneficiary funding growth of 1.5%, excluding the highest and lowest growth years to adjust for anomalies.

Based on TEL’s and the industry year-over-year growth in the most recent fiscal years, we anticipate Lottery for Education proceeds growth in Fiscal Years 2015, 2016, 2017 and 2018 of 2%.

After-School Programs Proceeds

After-School Programs Proceeds are projected based the five year historical unclaimed prize experience of 1.8% of prize expense.



STATE OF TENNESSEE
TENNESSEE STUDENT ASSISTANCE CORPORATION
SUITE 1510, PARKWAY TOWERS
404 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-0820
(615)741-1346 • 1-800-342-1663 • FAX (615)741-6101
www.TN.gov/collegepays

December 10, 2013

MEMORANDUM

TO: State Funding Board

FROM: Tim Phelps, Tennessee Student Assistance Corporation

SUBJECT: Tennessee Education Lottery Scholarship Program Projections

Pursuant to T.C.A 4-51-111(c)(2)(A)(ii), the Tennessee Higher Education Commission (THEC) and Tennessee Student Assistance Corporation (TSAC) have collaborated with the University of Tennessee Center for Business and Economic Research (CBER) to project expenditures in lottery scholarship and grant programs through the 2018-19 academic year.

The figures below incorporate data for all lottery-funded programs, including the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Nontraditional Student Grant, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, and the Math & Science Teacher Loan Forgiveness Program.

Fiscal Year	TELS Expenditures Low	TELS Expenditures Baseline	TELS Expenditures High	Recipients
2012-13 actual	N/A	\$312.0M	N/A	102,600
2013-14 estimated	\$306.1M	\$310.8M	\$329.0M	102,000
2014-15 estimated	\$316.1M	\$321.0M	\$340.0M	105,500
2015-16 estimated	\$325.1M	\$330.4M	\$353.3M	108,500
2016-17 estimated	\$334.6M	\$339.5M	\$362.9M	111,500
2017-18 estimated	\$338.7M	\$343.5M	\$367.6M	112,800
2018-19 estimated	\$342.1M	\$347.6M	\$372.4M	113,900

**Does not include supplemental funding of \$6.8M for TSAA and administrative costs of \$3.8M.*

These projections are based on the size of the annual high school graduating class, the scholarship take-up rate of eligible students, and the renewal rate of recipients. If further structural changes are made to the program, these projected expenditures may change.

Please let us know if you have questions or need anything further.



BILL HASLAM
GOVERNOR

STATE OF TENNESSEE
DEPARTMENT OF EDUCATION
6th FLOOR, ANDREW JOHNSON TOWER
710 JAMES ROBERTSON PARKWAY
NASHVILLE, TN 37243-0375

KEVIN HUFFMAN
COMMISSIONER

TO: Members of the Tennessee State Funding Board
FROM: Kevin Huffman KH^{ss}
DATE: December 10, 2013
SUBJECT: Request for \$23,000 from Net Lottery Proceeds for Lottery Scholarship Day for FY 2014-2015

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution", the Department of Education requests the allotment of \$23,000 from net lottery proceeds in FY 2014-2015 for Lottery Scholarship Day.

These 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.

Your consideration and approval of this request is appreciated.

cc: David Thurman



Lottery for Education and Lottery for Education Reserve: Tennessee State Funding Board

December 10, 2013

*Andrew C. Palmer, CFA
Tennessee Treasury Department
Deputy CIO*

*David H. Lillard, Jr.
Tennessee State Treasurer*



Agenda

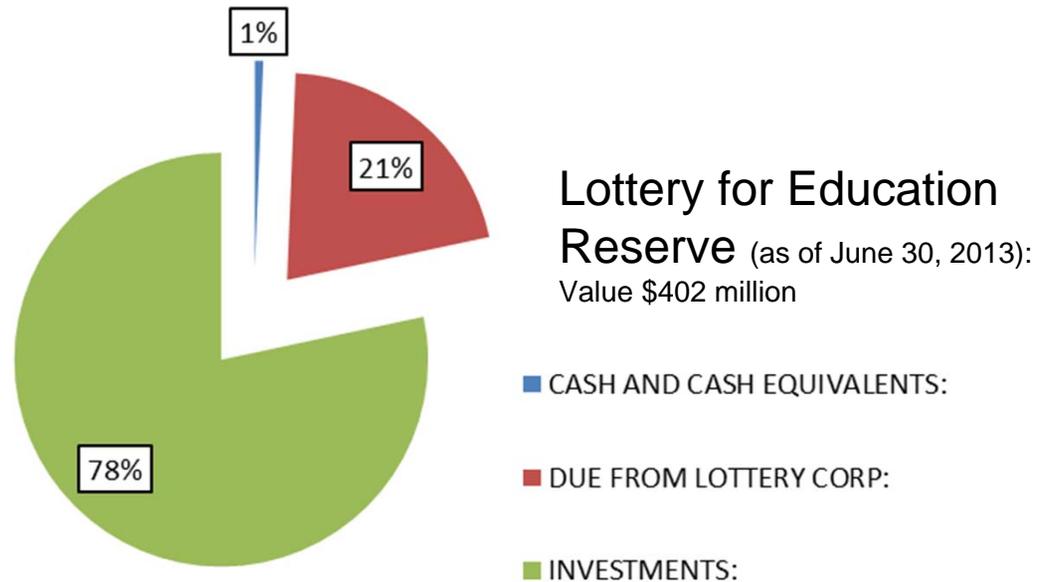
Asset Allocation Recommendation

Long and Intermediate Portfolio Results

Projection of Investment Earnings



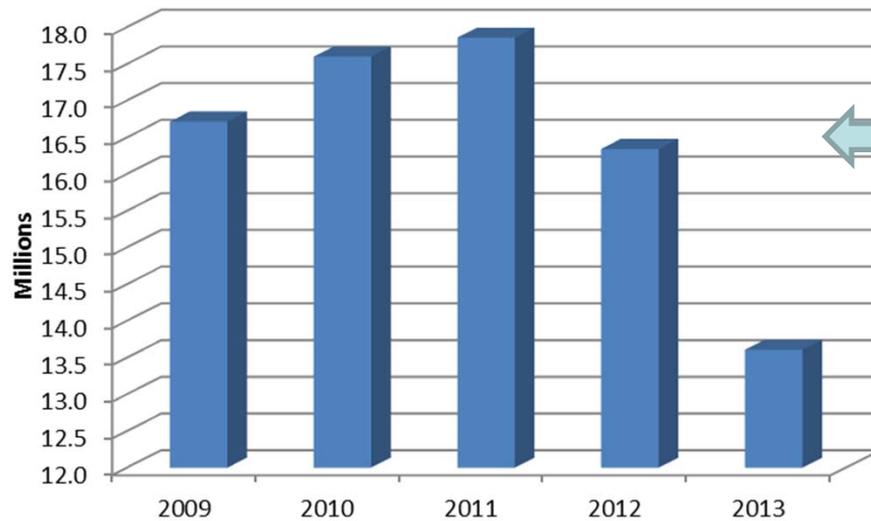
Asset Allocation Recommendation



FY 2013 Average SPIF BALANCE: \$19 million
FY 2013 Change in Fund Balance: \$(-7) million



Long and Intermediate Portfolio – Results and Allocation



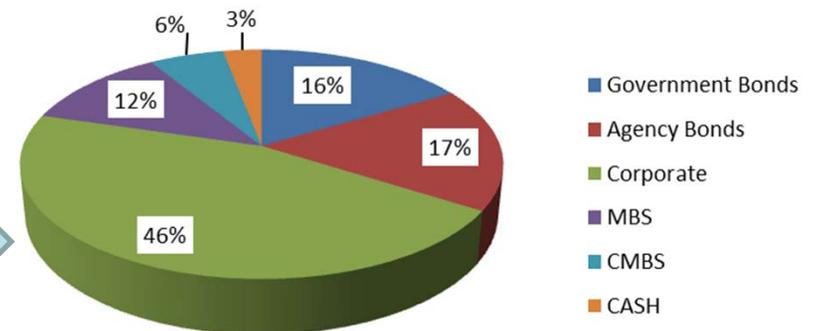
Interest Income Received



Portfolio Composition as of June 30 2013



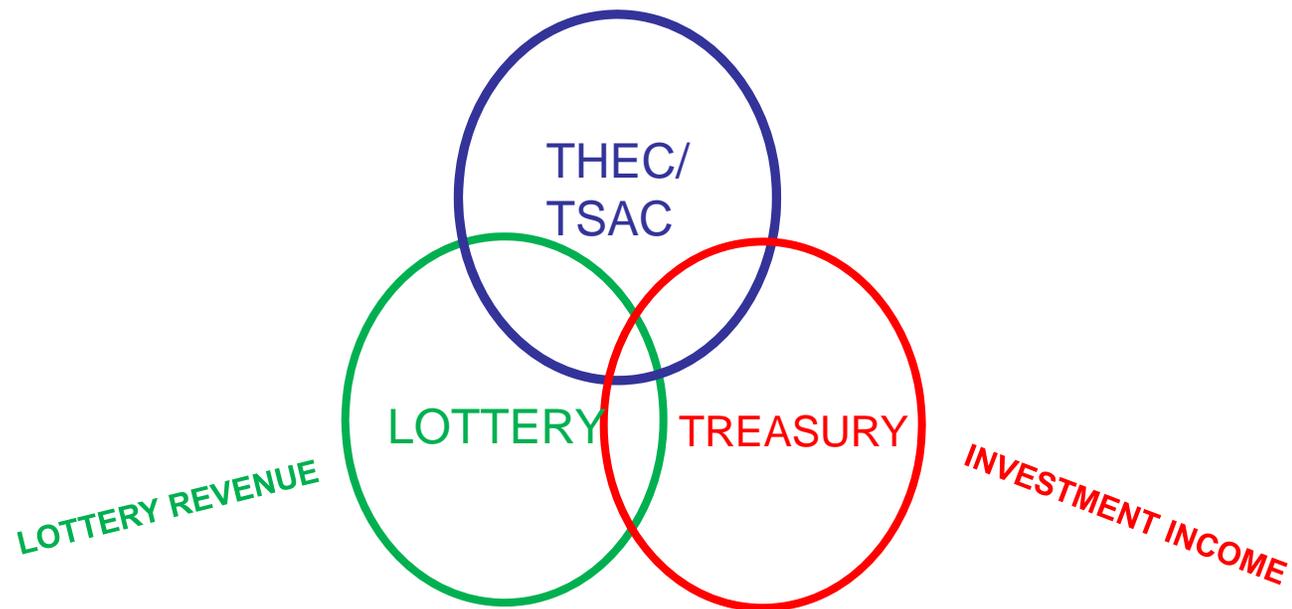
Market Value





Components of the Lottery for Education Program

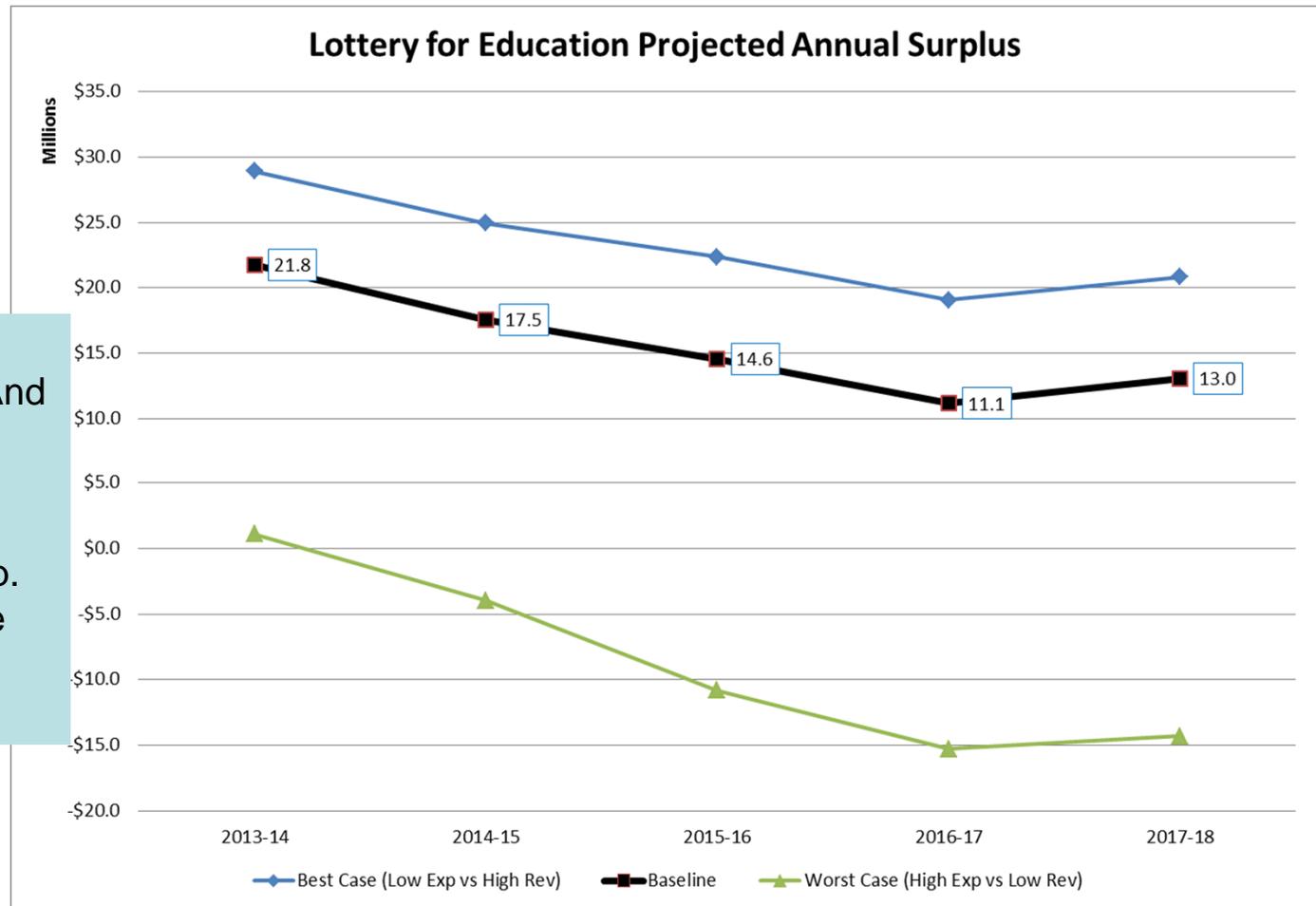
PROGRAM EXPENDITURES





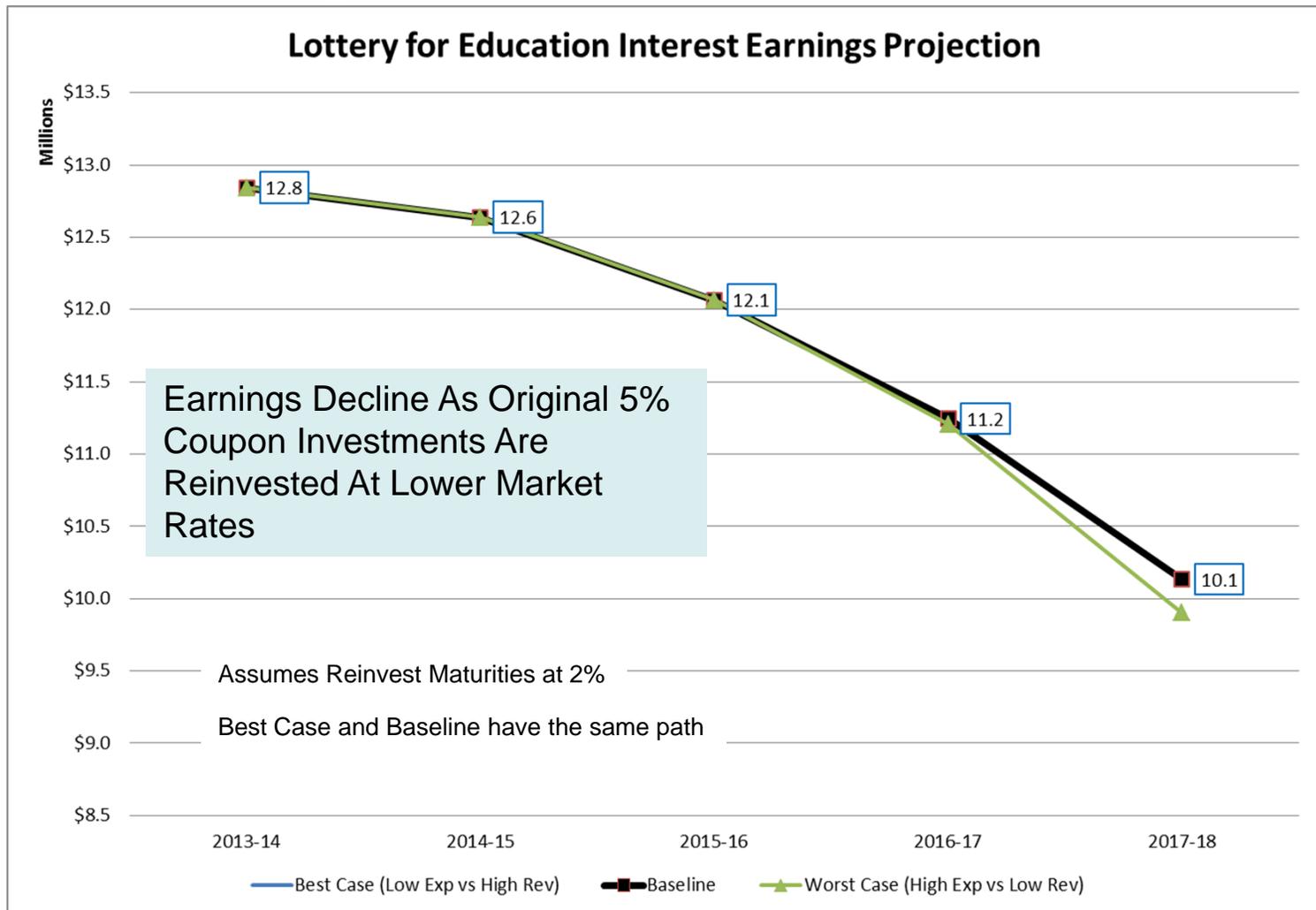
Projection of Investment Earnings – Annual Surplus

Projections Use The High, Low And Midpoint Of Revenue Forecasts From The Lottery Corp. And Expenditure Forecasts From THEC



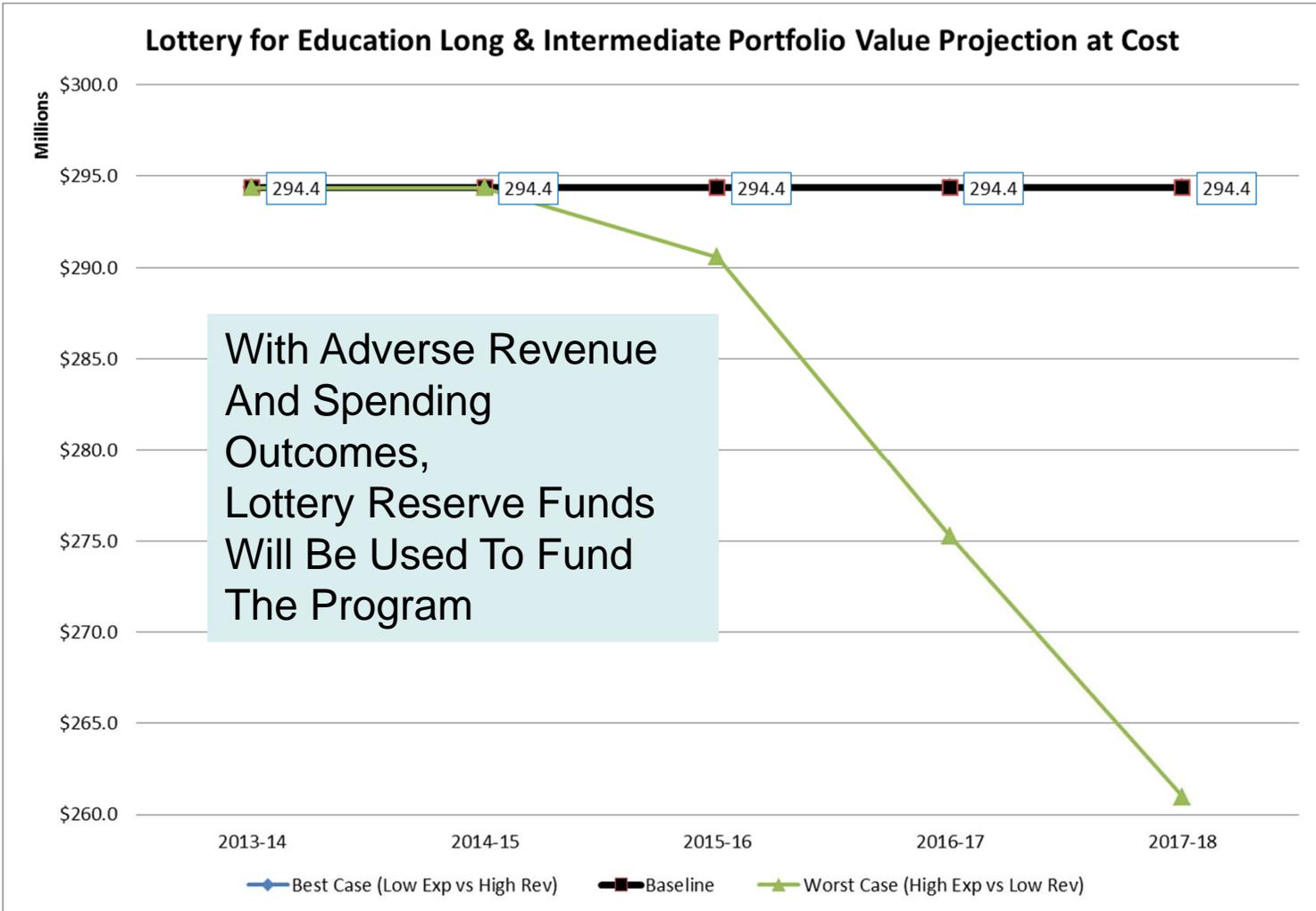


Projection of Investment Earnings for Long and Intermediate Portfolio





Projection of Long and Intermediate Portfolio





Summary

The Recommendation Is To Continue The Historic 80%/20% Allocation Of The Lottery For Education Reserve Between The Long And Intermediate Portfolio And Cash, Cash Equivalents And Other Assets

Lottery Interest Earnings Will Decline In Coming Years As Principal Is Reinvested At Lower Yields. This Decline Will Occur As Bonds Purchased In 2008 With 5% Coupons Mature And The Proceeds Are Reinvested In New Par Bonds At An Assumed 2% Yield.

The Recommendation Is That The Funding Board Lower The Income Target For The Long And Intermediate Portfolio From The \$16.9 Million Original Target To \$12.4 Million For The 2014 Fiscal Year.

Based On Projections, The Long And Intermediate Portfolio Principal Balance Will Be Stable Unless Expenditures And Income Are In The “Worst Case” Scenario.

**REPORT ON THE
STATE POOLED INVESTMENT FUND**
For The Fiscal Year Ended June 30, 2013

PREPARED FOR THE
STATE FUNDING BOARD

December 10, 2013

PREPARED BY
TREASURY DEPARTMENT
CASH MANAGEMENT DIVISION

TABLE OF CONTENTS

I.	Compliance with Investment Policy	
	• Portfolio Composition	1
	• Liquidity	2
II.	Portfolio Performance	3
III.	Review of Investment Policy	6
IV.	Investment Plan	6
V.	Cost of Administration	7
VI.	Largest Holdings	7

CHARTS AND TABLES

Average Portfolio Composition	1
Average Daily Invested Balances	2
Average Days to Maturity	2
Income Earned for 2012-2013	3
SPIF Investment Earnings	4
FOMC Meeting History	4
SPIF Yields by Asset Type	5
Comparison of Net Yields	5
Comparison of Average Days to Maturity	6
Largest Holdings at June 30, 2013	7

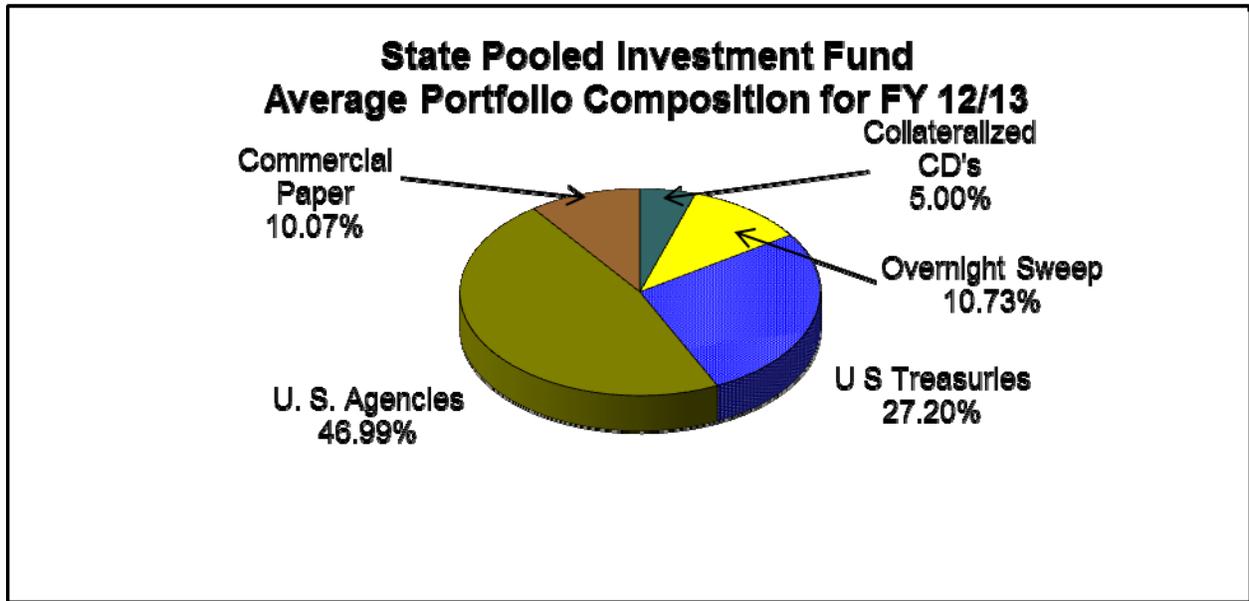
TENNESSEE TREASURY DEPARTMENT
State Pooled Investment Fund Report
For the fiscal year ended June 30, 2013

I. COMPLIANCE WITH INVESTMENT POLICY

The investment policy for the State Pooled Investment Fund is set by the State Funding Board. The board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State, and Treasurer. The investment objective for the state pooled investment fund is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity for state expenditures and other withdrawals from the state pooled investment fund.

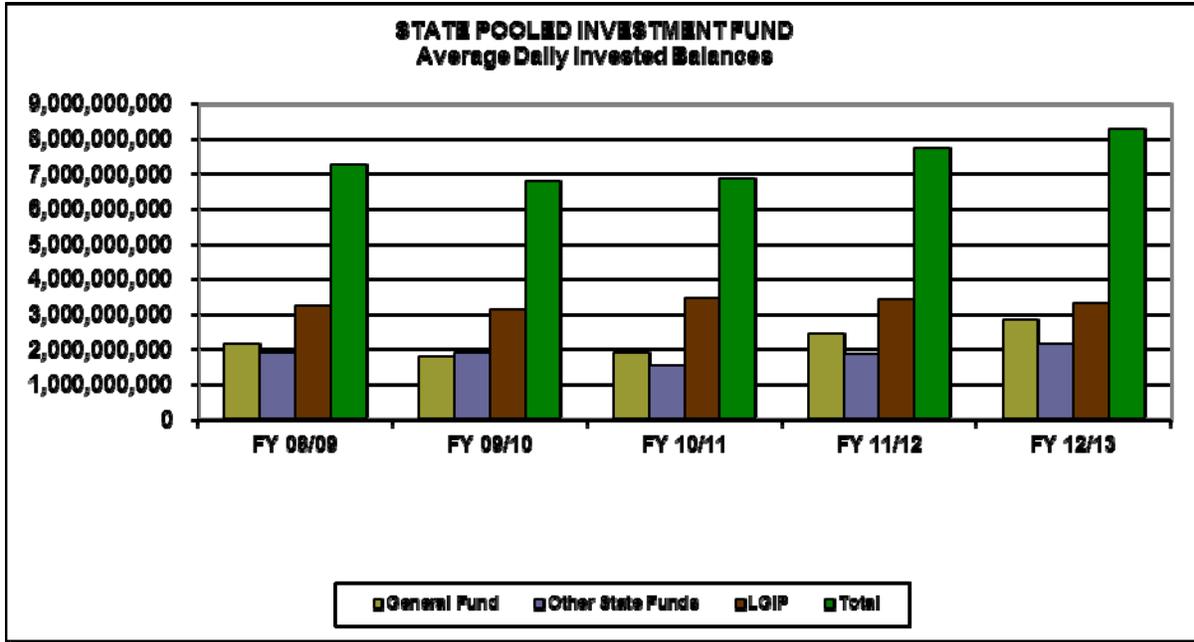
Portfolio Composition

The State Pooled Investment Fund had a monthly average of \$ 8.269 billion invested for the fiscal year ended June 30, 2013. The following chart shows the composition of the average portfolio.



Notice in the graph that the average invested in commercial paper during the year was 10.07% of the SPIF which is within the policy limitation (total of 40% of the SPIF, 35% up to 180 days and 5% overnight). The investment policy provides for investment in collateralized certificates of deposit as a priority over other investments to the extent in-state financial institutions want the CD's at the state's assigned rate. Typically, U. S. Agency securities are acquired instead of Treasuries when the yield spread makes them more attractive to own. Again this year, limited supply of other approved securities was the reason more Treasuries were acquired. In fact, Treasuries have been a major component of the SPIF for nearly three years.

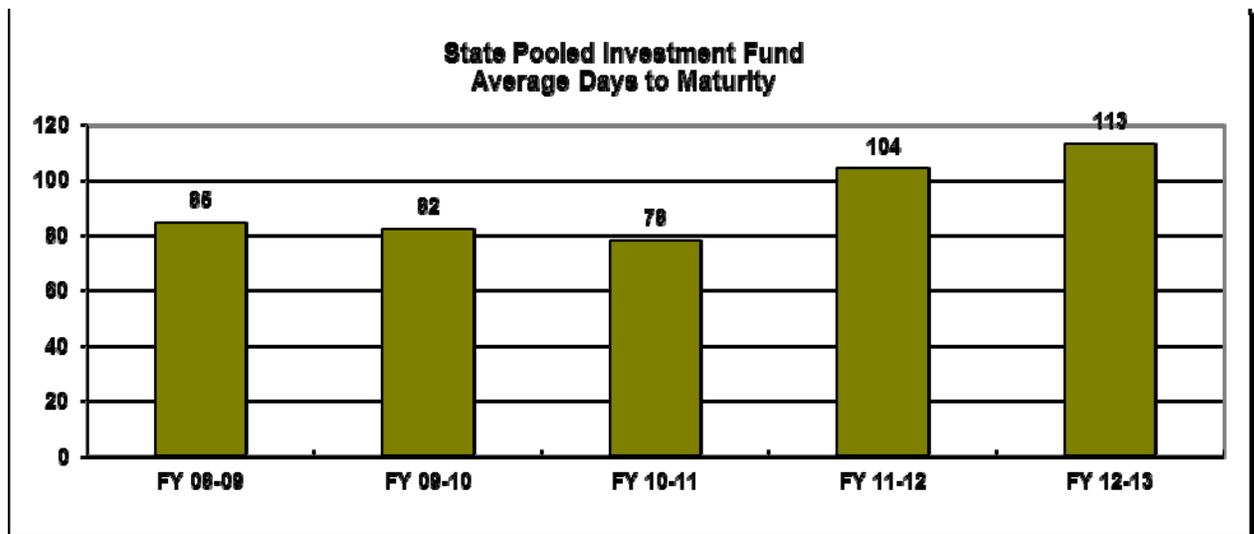
The following chart shows the average monthly balances in the state pooled investment fund for the last five years. At 6/30/13, the LGIP balance comprised 36.04% of the state pooled investment fund. The actual balance of funds available to invest on behalf of the General fund (Unrestricted Accounts) increased \$253.7 million (33%) from \$3.125 billion for 11/12 to \$3.379 billion for 12/13.



Liquidity

The Governmental Accounting Standards Board (GASB) issued a statement on “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” (GASB Statement 31) which impacted the investment policy for the State Pooled Investment Fund (SPIF). The SPIF is operated in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940. Until 2010, this rule required a dollar weighted average portfolio maturity of 90 days or less and a maximum maturity of any single investment of 397 days or less. In 2010, the SEC made further modifications that allow a dollar weighted average maturity of either 60 days or 120 days, based upon reporting methods used.

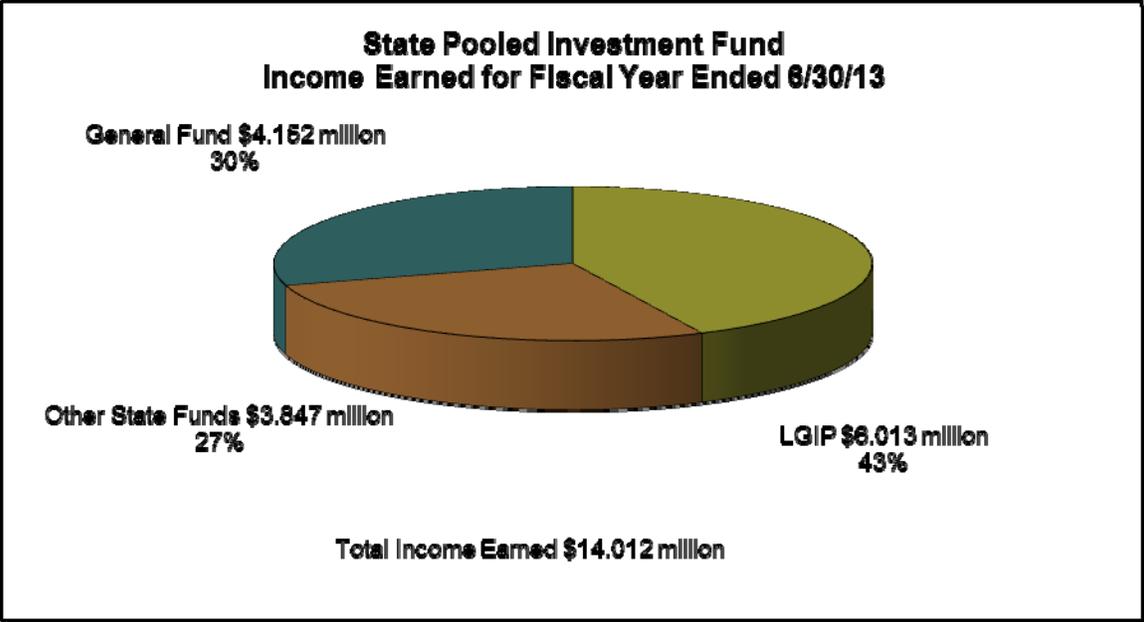
The following chart shows the dollar weighted average maturity of the SPIF over the past five years.



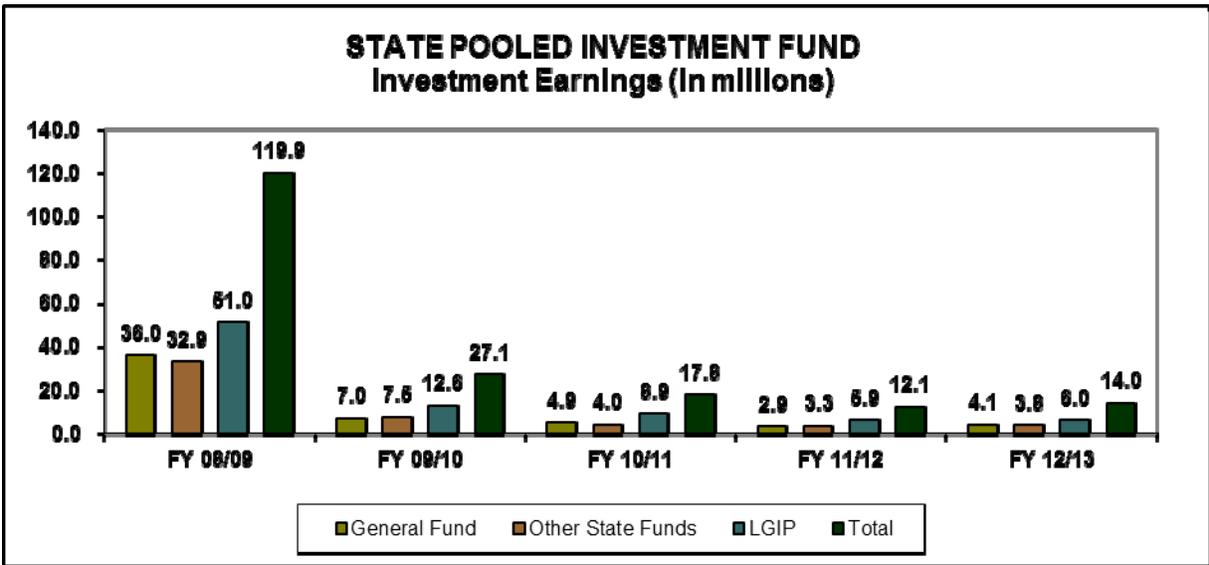
The additional liquidity requirements that were added in 2010 by the SEC also required that no more than 5% of the portfolio can be invested in illiquid securities, at least 10% of the portfolio must be invested in daily liquid assets, and at least 30% of the portfolio must be invested in weekly liquid assets. At June 30, 2013, the SPIF had 0% invested in illiquid securities, 90.2% was invested in daily liquid assets, and 93.8% was invested in weekly liquid assets.

II. PORTFOLIO PERFORMANCE

Income earned on the portfolio during the fiscal year ended June 30, 2013 totaled \$14.012 million. The distribution of earnings as shown on the following pie chart was \$4.152 million to the General fund; \$6.013 million to the LGIP; and, \$3.847 million to Other State funds (accounts specified by statute, court order or regulation to receive interest earnings on their balances). Examples include the funds of TWRA, the Risk Management Fund, and the Group Insurance Fund.



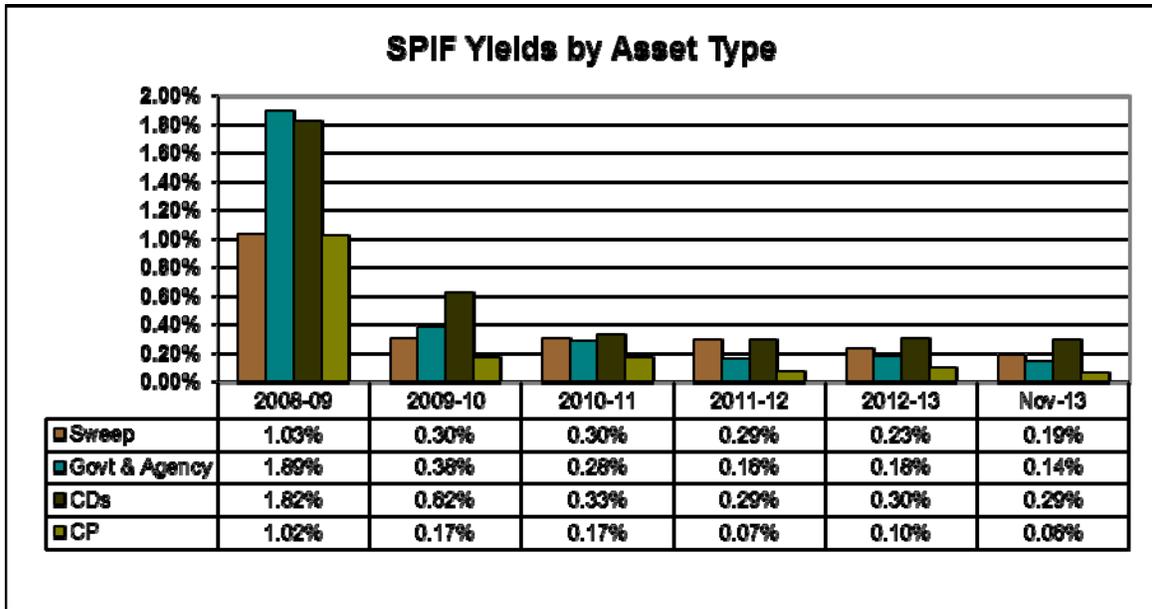
The monies in the SPIF represent the liquid working capital available to the State of Tennessee to cover expenditures until additional revenues are collected. Earnings of the state pooled investment fund for the last five years are shown in the following chart.



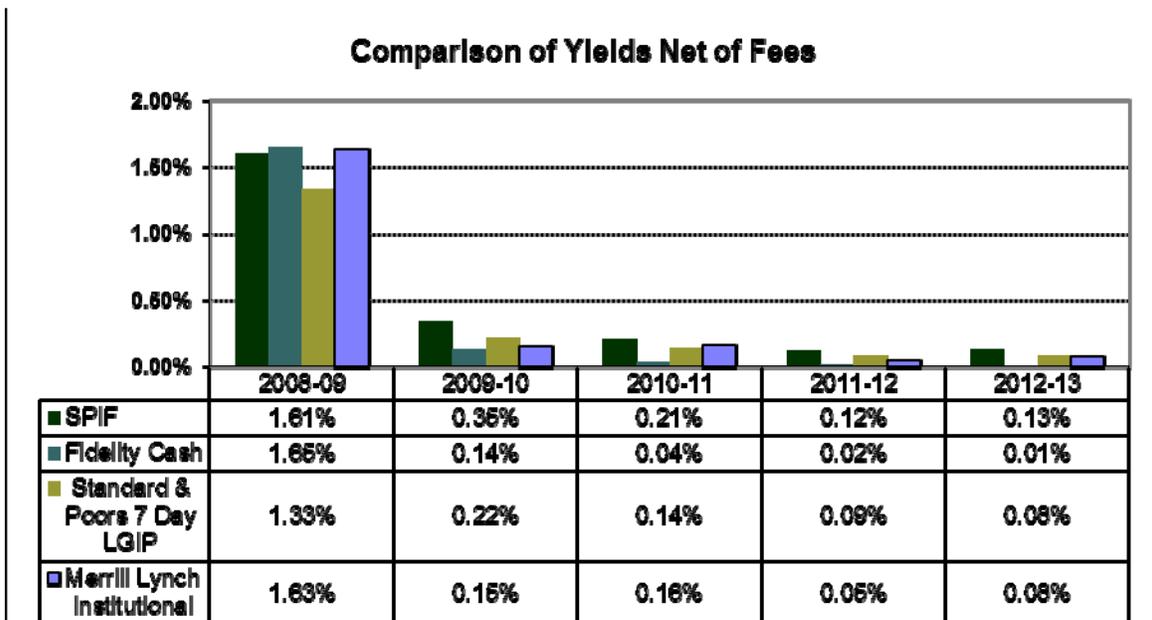
The fed funds target rate was lowered on 12/16/08 to a range of 0% to 0.25% and still remains at that level. The FOMC has given some direction regarding the timing of the next move in monetary policy, but the indicators that the Fed is watching will probably move the market very little over the next 12 months. With Janet Yellen coming on board as the new FOMC Chair, the markets anticipate the same dovish approach that has existed for the last several years. The chart below shows the actions taken at each of the meetings for the last eighteen months.

FOMC Announcement Date	Fed Funds Target Rate	Direction	Amount of Change	Primary Credit Rate	Economic Assessment
04/25/2012	0 to 0.25%	None	None	3.25%	Growth Risk
06/20/2012	0 to 0.25%	None	None	3.25%	Growth Risk
08/01/2012	0 to 0.25%	None	None	3.25%	Growth Risk
09/13/2012	0 to 0.25%	None	None	3.25%	Growth Risk
10/24/2012	0 to 0.25%	None	None	3.25%	Growth Risk
12/12/2012	0 to 0.25%	None	None	3.25%	Growth Risk
01/30/2013	0 to 0.25%	None	None	3.25%	Growth Risk
03/20/2013	0 to 0.25%	None	None	3.25%	Growth Risk
05/01/2013	0 to 0.25%	None	None	3.25%	Growth Risk
06/19/2013	0 to 0.25%	None	None	3.25%	Growth Risk
07/31/2013	0 to 0.25%	None	None	3.25%	Growth Risk
09/18/2013	0 to 0.25%	None	None	3.25%	Growth Risk
10/30/2013	0 to 0.25%	None	None	3.25%	Growth Risk

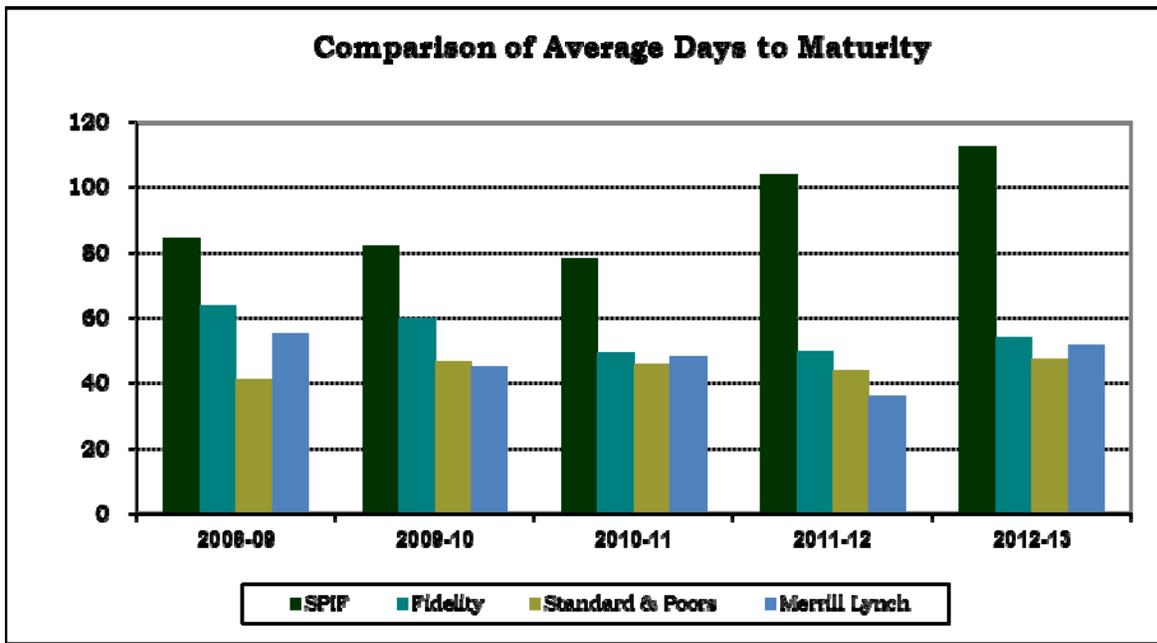
The following chart contains the average yields earned by asset type within the SPIF for the last five years and for the month of November, 2013.



The State Pooled Investment Fund is actively managed within the Treasury Department. Standard and Poor's provides a rating service for LGIP funds and calculates an index return for the rated funds. The following chart compares the average yield of the SPIF (net of administrative fee) to that index and also to the net yield of two well recognized money market funds governed by SEC Rule 2a7, Fidelity Cash Reserves Fund and the Merrill Lynch Institutional Fund.



The following chart indicates how the average days to maturity of the State Pooled Investment Fund compares to the average maturity of the Standard and Poor's rated funds index, Fidelity Cash Reserves Fund, and the Merrill Lynch Institutional Fund.



III. INVESTMENT POLICY REVIEW

There is a possibility that changes will need to be made to the SPIF Investment Policy during the next year. There are changes being proposed to the rules for SEC 2a-7 funds, and the SPIF is considered a 2a-7 like fund in order to comply with GASB 31 rules. Also, with the many challenges facing the economy, any changes that will add to the safety or liquidity of the SPIF will need to be considered as well.

IV. INVESTMENT PLAN

Five years ago, the FOMC lowered the Fed Funds rate to a range of zero to 0.25%. The rate has remained unchanged since that time. Based upon Fed Funds Futures, the overnight rate shows very little change during the next 12 months. Depending on the timing of the Federal Reserve's reduction in quantitative easing, which has kept rates artificially low for the past five years, earnings generated by the SPIF for fiscal year 2014 may be immaterial. Staff will continue to seek ways to generate as much revenue as possible and remain in compliance with the Investment Policy. Staff will continue to maintain a diversified portfolio of CDs, bank deposits, US Government obligations, and commercial paper. The yield curve, actions taken by the Federal Reserve Bank, regulatory changes, and other market conditions will be considered when managing the asset mix and average maturity of the portfolio. During fiscal year 2013, the Transaction Account Guarantee program that insured all bank deposits in non-interest bearing accounts with unlimited FDIC coverage expired on December 31, 2012. Analysts believed that a majority of those funds would flow into the money market sector, and they were correct. The Securities and Exchange Commission issued proposed rules changes for money market funds and are considering their options while reviewing the responses from interested parties that commented on the proposed changes during the comment period. Even though actions by the FOMC and the SEC continue to limit inventory and push rates lower, the SPIF remains a safe investment for state funds and monies invested by local government officials. There has been no loss of funds due to credit exposure and no liquidity concerns.

V. COST OF ADMINISTRATION

The cost to operate the SPIF was \$3.032 million for the year ended June 30, 2013. The costs of operations are funded from a 5 basis point charge for assets invested. Most money market funds charge substantially more than 5 basis points. Also, the costs of operations include more than investment management. The 5 basis points finances:

- Investment of portfolio
- Maintenance of collateral
- Collateral pool administration
- Cash concentration
- Bank reconciliations and resolution of reconciling items
- LGIP program
- Warrant reconciliation
- Accounting and recordkeeping
- Support cost such as internal audit, payroll, personnel, etc.

VI. LARGEST HOLDINGS AT JUNE 30, 2013 BY CATEGORY

Treasuries and Agencies

1. FHLB	\$1,642,810,000
2. FFCB	1,064,250,000
3. FNMA	589,802,000
4. IBRD	587,000,000

Commercial Paper

1. BNP Paribas	\$440,000,000
2. Nieuw Amsterdam Rec	100,000,000
3. General Electric	100,000,000
4. Pepsi	100,000,000

Bank CD's

1. B B & T	\$275,000,000
2. First Tennessee	100,000,000
3. Landmark Community Bank	32,000,000
4. First Citizens Natl Bank	23,000,000

TENNESSEE STATE FUNDING BOARD
December 10, 2013
1:00 p.m. / Legislative Plaza – (Room LP-16)
AGENDA

1. Call Meeting to order
2. Presentation of Revenue Report for December: Commissioner Larry Martin, Finance and Administration
3. Revenue Estimating Presentations:

Presenters:

Dr. Albert DePrince, Professor of Economics and Finance
Middle Tennessee State University

Dr. William Fox, Professor of Economics
U.T. Center for Business and Economic Research

Commissioner Richard H. Roberts, Department of Revenue, State of Tennessee
Phillip Mize, Deputy Commissioner and Chief Financial Officer
Kirk Johnson, Director of Research
Jacob Gorman, Staff Economist

Mr. Robert Currey, Chief Economist, Fiscal Review Committee

4. Lottery Revenue Estimating Presentations:

Mr. Robert Currey, Chief Economist, Fiscal Review Committee

Tennessee State Lottery:

Ms. Rebecca Hargrove, President and CEO

Mr. Andy Davis, Chief Financial and Technology Officer

Mr. Tim Phelps, Associate Executive Director for Grant and Scholarship
Programs, Tennessee Student Assistance Corporation

5. Request to the Board for consideration for program funding for the fiscal year 2014-2015 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B)
6. Report of Treasurer's Earnings on Lottery Proceeds: Mr. Andy Palmer, Department of the Treasury
7. State Pooled Investment Fund (SPIF) Report: Mr. Tim McClure, Department of the Treasury
8. Recess