TENNESSEE STATE FUNDING BOARD
November 20, 2018
8:30 a.m./Cordell Hull Building – (Senate Hearing Room I – 1st Floor)

AGENDA

1. Call Meeting to order

2. Approval of State Funding Board Minutes from September 13, 2018.

3. Presentation of Report for October Revenues: Commissioner Larry Martin, Finance and Administration

4. Revenue Estimating Presentations:

   Presenters:

   Ms. Laurel Graefe, Vice President and Regional Executive,
   Federal Reserve Bank of Atlanta, Nashville Office

   Dr. William Fox, Professor of Economics,
   Boyd Center for Business and Economic Research, University of Tennessee

   Dr. Jon L. Smith, Director, Bureau of Business and Economic Research,
   Dr. Joseph Newhard, Assistant Professor of Economics,
   Dr. Fred Mackara, Associate Professor of Economics,
   East Tennessee State University

   Commissioner David Gerregano,
   Ms. Christin Lotz, Director of Research,
   Dr. Michael House, Staff Economist,
   State of Tennessee, Department of Revenue

   Mr. Robert Currey, Assistant Director,
   Mr. Bojan Savic, Chief Economist,
   State of Tennessee, Fiscal Review Committee

5. ~~Lottery Revenue Estimating Presentations:~~

   ~~Mr. Robert Currey, Assistant Director,~~
   ~~Mr. Bojan Savic, Chief Economist,~~
   ~~State of Tennessee, Fiscal Review Committee~~

   ~~Mr. Andy Davis, Chief Financial and Technology Officer~~
   ~~Tennessee State Lottery Corporation:~~

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

6. ~~Request to the Board for consideration for program funding for the fiscal year 2019-2020 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B)~~

Recess (To Reconvene November 26, 2018, at 1:00 p.m./Cordell Hull Building – Senate Hearing Room I -- 1st Floor)

http://www.capitol.tn.gov/ (See: Joint/What's Streaming Now)

TENNESSEE STATE FUNDING BOARD
September 13, 2018

The Tennessee State Funding Board (the "Board") met on Thursday, September 13, 2018, at 1:00 p.m., in the Tennessee State Capitol, Executive Conference Room, Nashville, Tennessee. The Honorable Justin Wilson, Comptroller, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
Commissioner Larry Martin, Department of Finance and Administration

The following members were absent:

The Honorable Bill Haslam, Governor
The Honorable David Lillard, State Treasurer

Seeing a physical quorum present, Mr. Wilson called the meeting to order. Mr. Wilson then proceeded to change the order that the items on the agenda were brought before the Board. Mr. Wilson then presented the minutes from the July 17, 2018 meeting, and barring any further comment, asked approval of the minutes. Mr. Martin made a motion to approve the minutes. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson recognized Mr. Bob Rolfe, Commissioner of Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the "FastTrack Report to State Funding Board" (the "Funding Report"). Mr. VanderMeer reported that, as of the date of the last Board meeting on July 17, 2018, the FastTrack balance was $343,146,701.01. Since that time, $319,270.14 in new appropriations had been received, the result of interest for the month of June 2018; $166,500.00 in funds had been deobligated and returned to the FastTrack program; $500,000.00 in funds were transferred from FastTrack to assist the Allied Dispatch Solutions project in Hancock County; $6,489,100.00 in new grants had been approved; and $156,190.23 in funds were spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of $336,487,180.92 as of the date of the Funding Report. Mr. VanderMeer reported that commitments had been made in the amount of $270,118,593.13, resulting in an uncommitted FastTrack balance of $66,368,587.79, which represented 80.3% of the FastTrack balance. Mr. VanderMeer reported that the projects to be considered at this meeting totaled $13,364,328.00, and if these projects were approved, the uncommitted balance would be $53,004,259.79 and the total committed balance would be $283,482,921.13, which represented 84.2% of the FastTrack balance.

Mr. Wilson then stated that ECD had approximately $66,000,000.00 in uncommitted funds remaining through June 30, 2019, at which time there will be a new budget and a new Governor. Mr. Wilson further stated, as a reminder, that ECD should be aware that applications need to be sent to the Department of Finance and Administration ("F&A") in time to allow F&A to make proposals to the Governor for the next budget. Mr. Rolfe responded that the process was ongoing.

Mr. Wilson requested the FastTrack projects presented to the Board be presented at one time. Mr. Rolfe then presented the following FastTrack projects:

- **American Lebanese Syrian Associated Charities &**
  St. Jude Children's Research Hospital – Memphis (Shelby County)
  FastTrack Economic Development Grant $ 12,000,000.00

- **BMT Manufacturing, LLC – Jacksboro (Campbell County)**
  FastTrack Economic Development Grant $ 113,328.00
  FastTrack Job Training Grant $ 48,000.00

- **BMT Manufacturing, LLC – Jellico (Campbell County)**
  FastTrack Economic Development Grant $ 383,000.00
  FastTrack Job Training Grant $ 70,000.00

- **CKE Restaurants Holdings, Inc. – Franklin (Williamson County)**
  FastTrack Economic Development Grant $ 750,000.00

Mr. Martin inquired if the $12,000,000.00 economic development grant to St. Jude Children's Research Hospital completed the State's commitment. Mr. Rolfe responded affirmatively.

The Board received in their packets signed letters, FastTrack checklists, and incentive acceptance forms signed by Mr. Rolfe. Mr. Wilson inquired if the information provided in the ECD packets was true and correct and Mr. Rolfe responded affirmatively. Mr. Wilson also inquired if the companies that had signed the incentive acceptance forms fully understood the agreements and could meet the obligations set forth in the agreements. Mr. Rolfe responded affirmatively. Mr. Wilson made a motion to approve the FastTrack projects that were presented. Mr. Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then presented for consideration for approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund $7,000,000.00 and Canceling Authorized Bonds" to be effective September 13, 2018. Mr. Wilson explained that this resolution was to cancel bonds authorized for the Department of Safety Interoperable Communication System, as recommended by the Commissioner of Finance and Administration. Mr. Wilson made a motion to approve the resolution. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Ms. Ann Butterworth, Assistant to the Comptroller for Public Finance, to present the Board Guidelines for Requests for Approval to Issue Tourism Development Zone (TDZ) Debt ("TDZ Guidelines") for public hearing and approval. Ms. Butterworth stated that at a meeting on June 19, 2018, the Board directed that the proposed TDZ Guidelines and the proposed Annual Debt Reporting by Industrial Development Corporations Guidelines ("IDC Guidelines") be subject for comment for at least 60 days. Ms. Butterworth stated that the Office of the Comptroller of the Treasury posted on its website the TDZ and IDC Guidelines and had a news release on June 26, 2018.Due to the minimal response, on August 18, 2018the Office of State and Local Finance ("OSLF") sent targeted emails to interested association contacts and attorneys listed on CT-0253 forms for the Industrial Development Corporations ("IDC"). Ms. Butterworth reported that by August 31, 2018, OSLF had received comments from 12 entities; 2 provided suggestions not directly related to the Guidelines, another 2 submitted identical responses to the Guidelines, and only 4 of the 7 outside respondents provided comments on the TDZ Guidelines. Ms. Butterworth further reported that the most detailed comments came on the last two days of the comment period.

Mr. Wilson requested that the proposed changes to the draft TDZ Guidelines be summarized. Ms. Butterworth responded that timing was a major concern. Staff recommends that the timing for submission of a request for approval be at least 60 calendar days rather than 60 business days before sale date of the debt and that an alternate time frame be allowed if agreed upon by the Director of OSLF in writing. Ms. Butterworth further clarified that if a request was disapproved and the corrected information was submitted, then the submission clock or timing will not restart. With regard to Appendix A there were changes made clarifying who had the repayment burden in conduit borrowing situations; that the last maturity of the debt is to be no later than the fiscal year in which the final apportionment of TDZ revenue was made; that evidence of submittal of debt amortization schedules to F&A was sufficient; and that a draft preliminary official statement was sufficient. Ms. Butterworth stated that the staff to the Board believed the revised TDZ Guidelines addressed the concerns raised by commentators and recommended approval of the TDZ Guidelines. Mr. Wilson stated that he reviewed the changes to the TDZ Guidelines and that the changes were appropriate. Mr. Wilson then made a motion for approval of the TDZ Guidelines in substance, with delegation to the Secretary to make non-substantive changes to the document. Mr. Martin seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Sandra Thompson, Director, OSLF, to present for consideration for approval a request from the City of Pigeon Forge to issue TDZ debt in an amount not to exceed $33,000,000.00. Ms. Thompson stated that the City of Pigeon Forge had met the requirements of the TDZ Guidelines except in relation to the timing of the request for approval submission. Ms. Thompson further stated that the municipality had not submitted the request within the timeframe that had been established by the draft TDZ Guidelines but as the TDZ Guidelines were only in draft form OSLF deemed the submission to be complete and submitted on an approved alternate timeframe. Mr. Wilson inquired if OSLF's recommendation was to approve. Ms. Thompson responded affirmatively. Mr. Wilson then recognized Mr. Mark Mamantov, Bond Counsel for the City of Pigeon Forge, to answer any further questions about the proposed debt; there were none. Mr. Hargett made a motion to approve the TDZ debt. Mr. Wilson seconded the motion, and it was unanimously approved.

Mr. Wilson then recognized Ms. Thompson to present for consideration for approval a request from the Industrial Development Board of Chattanooga to issue refunding TDZ debt. Ms. Thompson stated that the entity had met the requirements of the TDZ Guidelines except for the timing of the submission. Ms. Thompson further stated that the entity had not submitted the request within the timeframe that had been established but as the TDZ Guidelines were only draft form OSLF deemed the submission to be complete and submitted on an approved alternate timeframe. Ms. Thompson reported that it was OSLF's recommendation to approve the debt. Mr. Martin made a motion to approve the debt. Mr. Wilson seconded, and the motion was unanimously approved.

Mr. Wilson then recognized Ms. Butterworth to present the Board Guidelines for Annual Debt Reporting by Industrial Development Corporations for public hearing and approval. Ms. Butterworth stated that Public Chapter 529 provides that, as of March of 2018, IDC are to keep aggregate listings of current debt in accordance with guidelines approved by the Board, to file on an annual basis the aggregate listing with the Board, and to file a notice of default with the Board within 15 days of the event. Ms. Butterworth further stated that 5 comments were received on the IDC Guidelines and the largest concern was the lack of ability for IDCS to find information that they had not previously kept. Ms. Butterworth reported that, unlike the TDZ Guidelines which impact a small number of entities, the proposed IDC Guidelines impact many entities located in nearly all counties and which had not reviewed the proposed Guidelines and not provided input. Staff considered Interim IDC Guidelines that would be applicable to Fiscal Year 2018 allowing staff to review IDC filings and to present the Board before the end of Fiscal Year 2019 suggestions for final IDC Guidelines. Ms. Butterworth further reported that these Interim IDC Guidelines, which were distributed in the meeting, required the first filing by January 31, 2019, acknowledged the trouble for the IDC in gathering this information, reduced the amount of information that is included in the initial listing of the debt, and, if information were not available, directed the IDC to furnish a statement as to the problems encountered in locating the information and the efforts that will be undertaken to locate the missing information. Ms. Butterworth stated that staff to the Board recommended approval of Interim IDC Guidelines in substance with an effective date of October 1, 2018, with an understanding that after review by the Board Members, a meeting could be called by September 28, 2018, for revisions to the presented Interim IDC Guidelines; otherwise the Interim IDC Guidelines would become effective October 1st .

Mr. Wilson then stated that the Board had a legislative directive to take an action in 2018 but he was not comfortable with the amount of review time of the major comments received on August 31,2018, and the lack of consensus among the staff to the Board on what modifications were necessary to the IDC Guidelines. Mr. Wilson further stated that the Interim IDC Guidelines addressed all the issues that commenters raised but was not sure if the Interim IDC Guidelines satisfied all the issues that were likely to arise. Mr. Wilson stated that the options were to approve the Interim IDC Guidelines or do nothing, but he recommended approval of the Interim IDC Guidelines.

Mr. Martin inquired if the burden of meeting the requirements was due to a lack of manpower or the lack of availability of information. Ms. Butterworth responded that it was both. Ms. Butterworth further replied that many IDC do not have full time staff or rely on third party staffing and have not necessarily kept transaction records. Ms. Butterworth stated that the Interim IDC Guidelines recommends that the IDC work with staff to the Board to gather as much of the basic debt information as possible and that the proposed revisions tried to balance the directive of the General Assembly with the burden it would impose. Mr. Martin responded that the Interim IDC Guidelines were a step in the right direction. Mr. Martin also inquired as to whom has the burden of responsibility for making sure the information is received in a timely manner. Mr. Wilson responded that the filings would be made with OSLF and the reporting agency to the Board was staff to the Comptroller of the Treasury.

Mr. Wilson motioned for approval of the Interim IDC Guidelines in substance, with delegation to the Secretary to make non-substantive changes to the document with such guidelines to be effective October 1, 2018, unless prior to September 28, 2018, any member of the Board requested a meeting to reconsider approval. Mr. Hargett seconded the motion, and it passed unanimously.

After requesting other business and hearing none, Mr. Wilson adjourned the meeting.

Approved on this _____ day of ____________________ 2018.

Respectfully submitted,

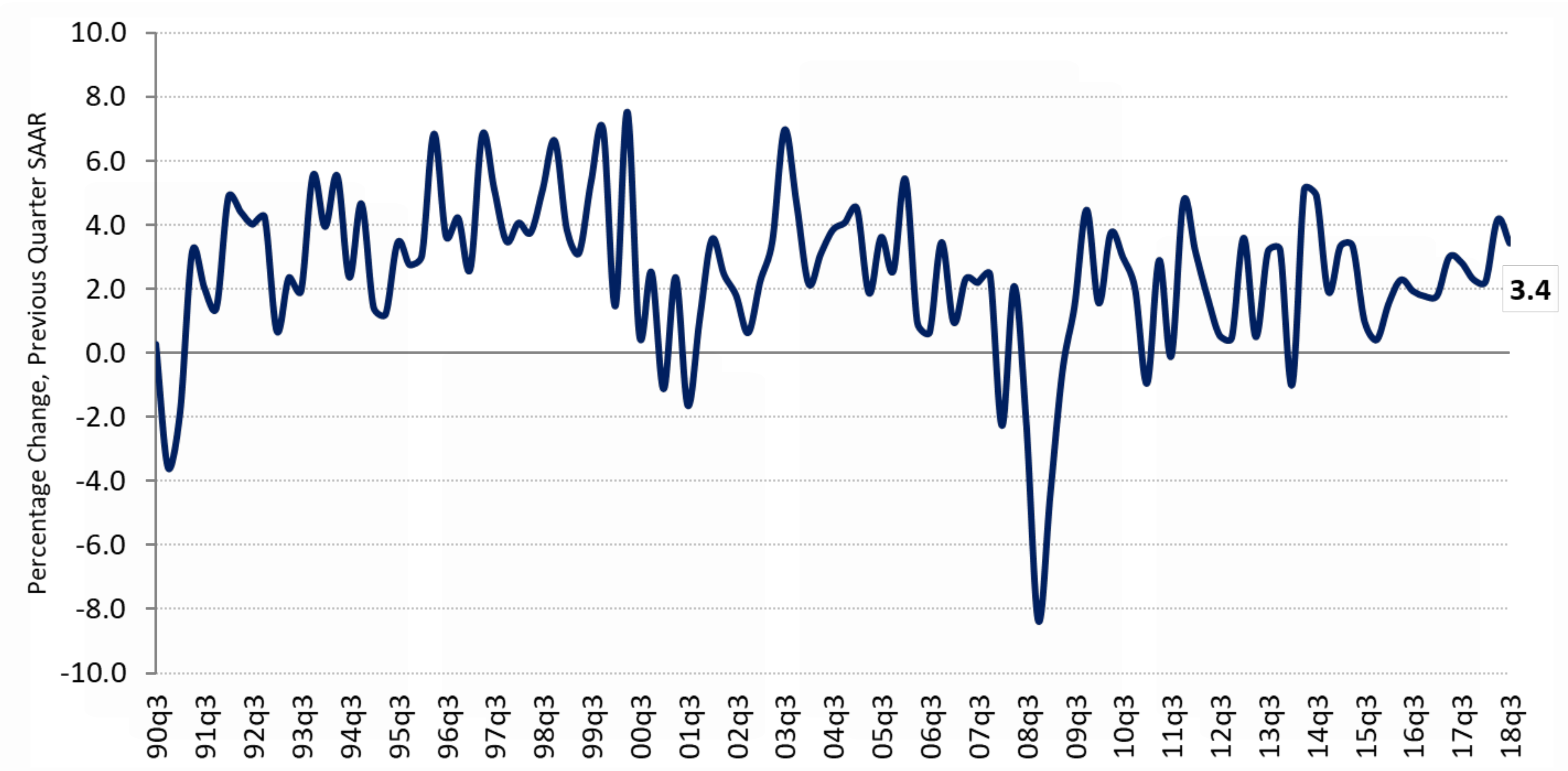
Sandra Thompson
Assistant Secretary

Tennessee Economic Outlook and Tax Revenues

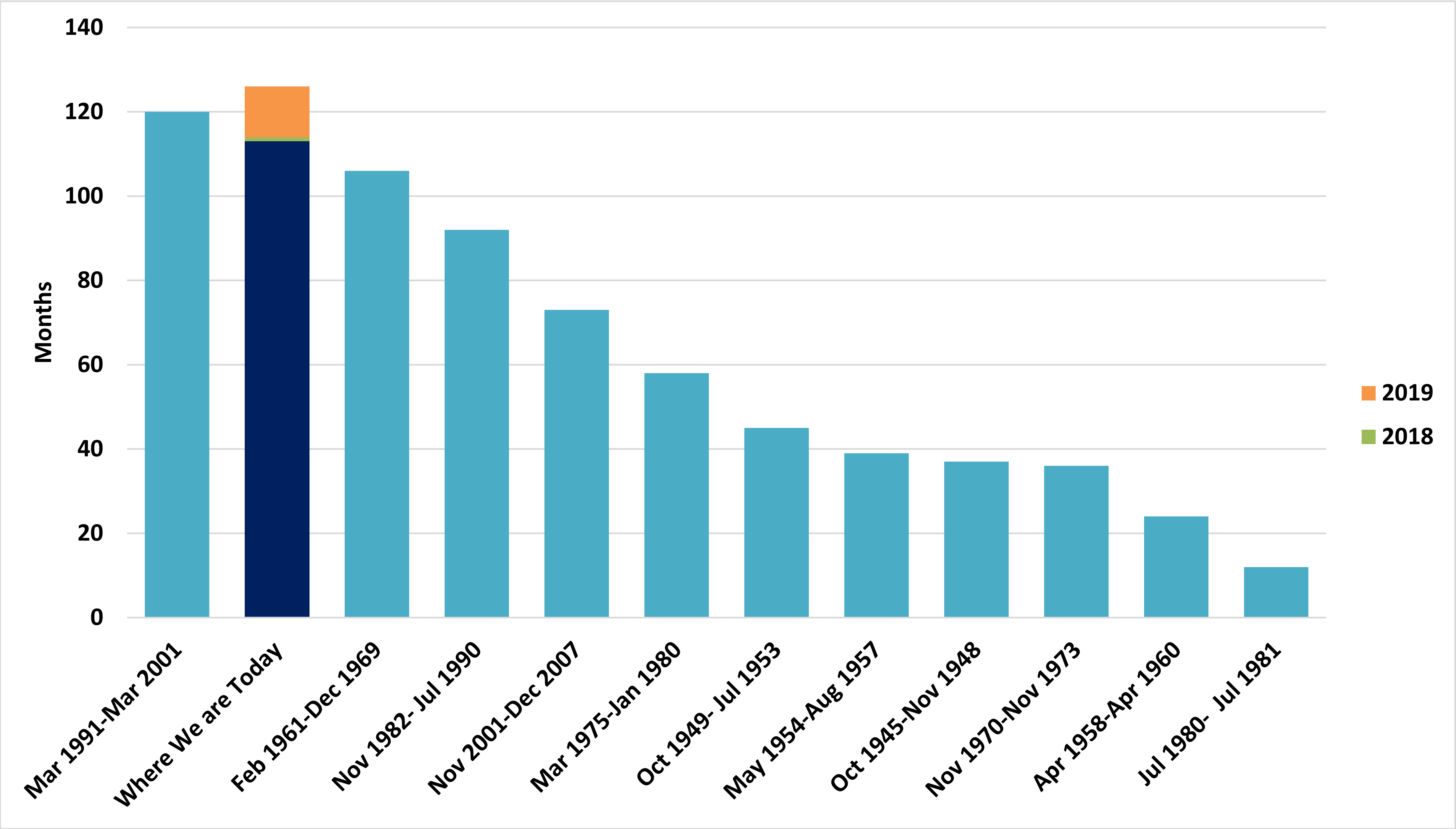
William F. Fox, Director
November 20, 2018

THE UNIVERSITY OF TENNESSEE KNOXVILLE
BOYD CENTER FOR BUSINESS AND ECONOMIC RESEARCH

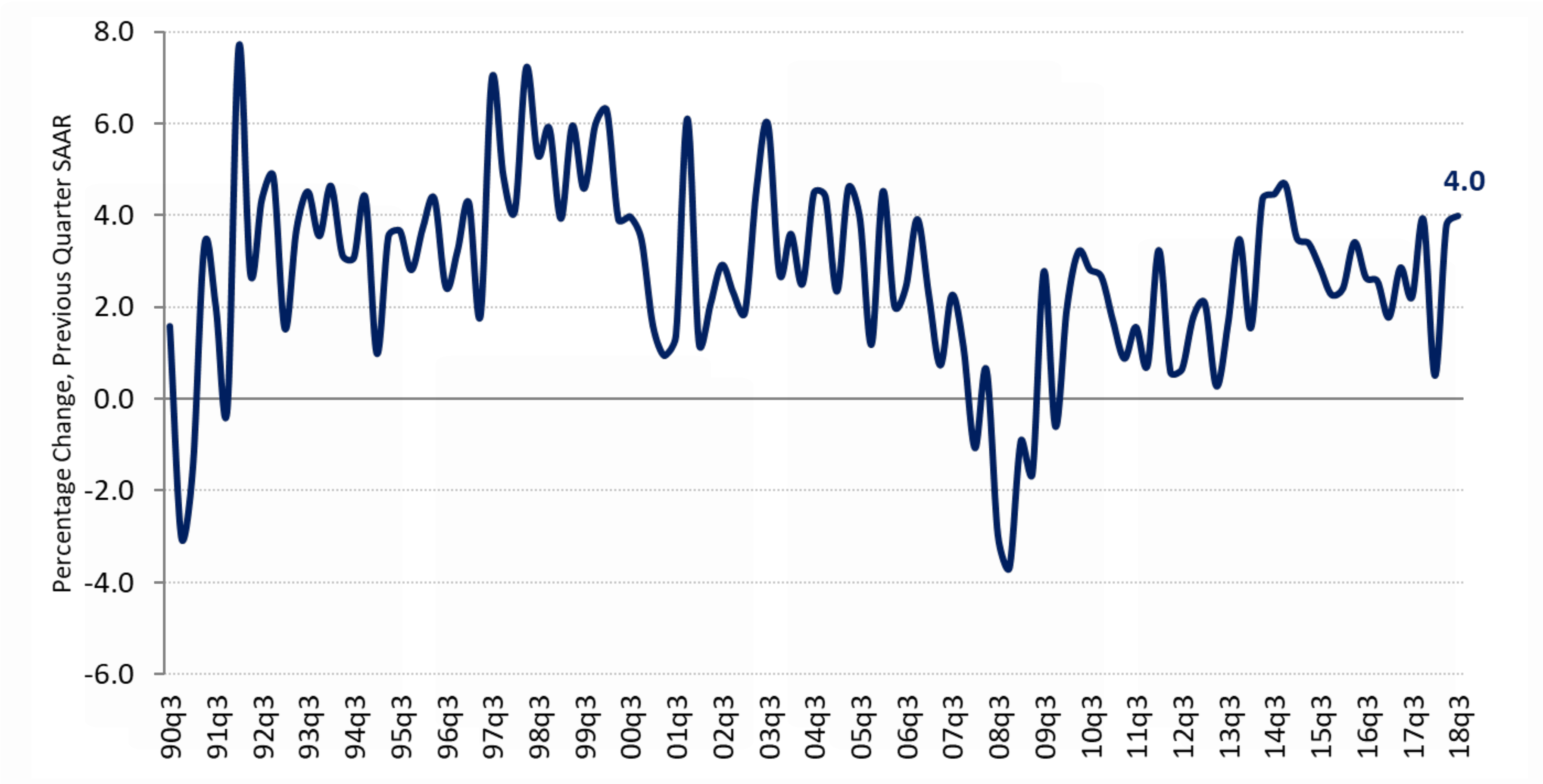
Growth in Quarterly Real Gross Domestic Product (chained 2012 dollars)



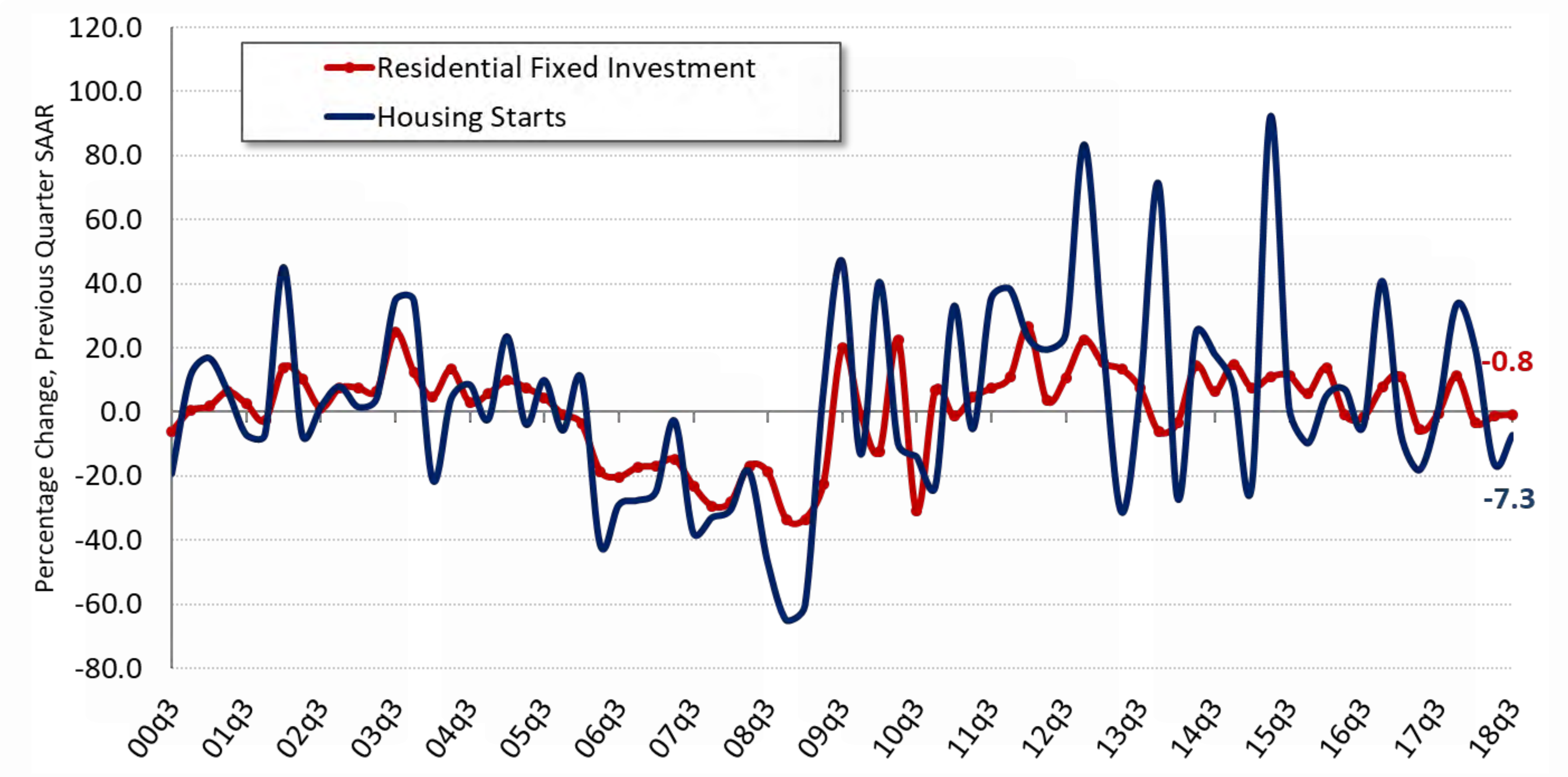
The current expansion will be the longest in history by the fiscal year's end



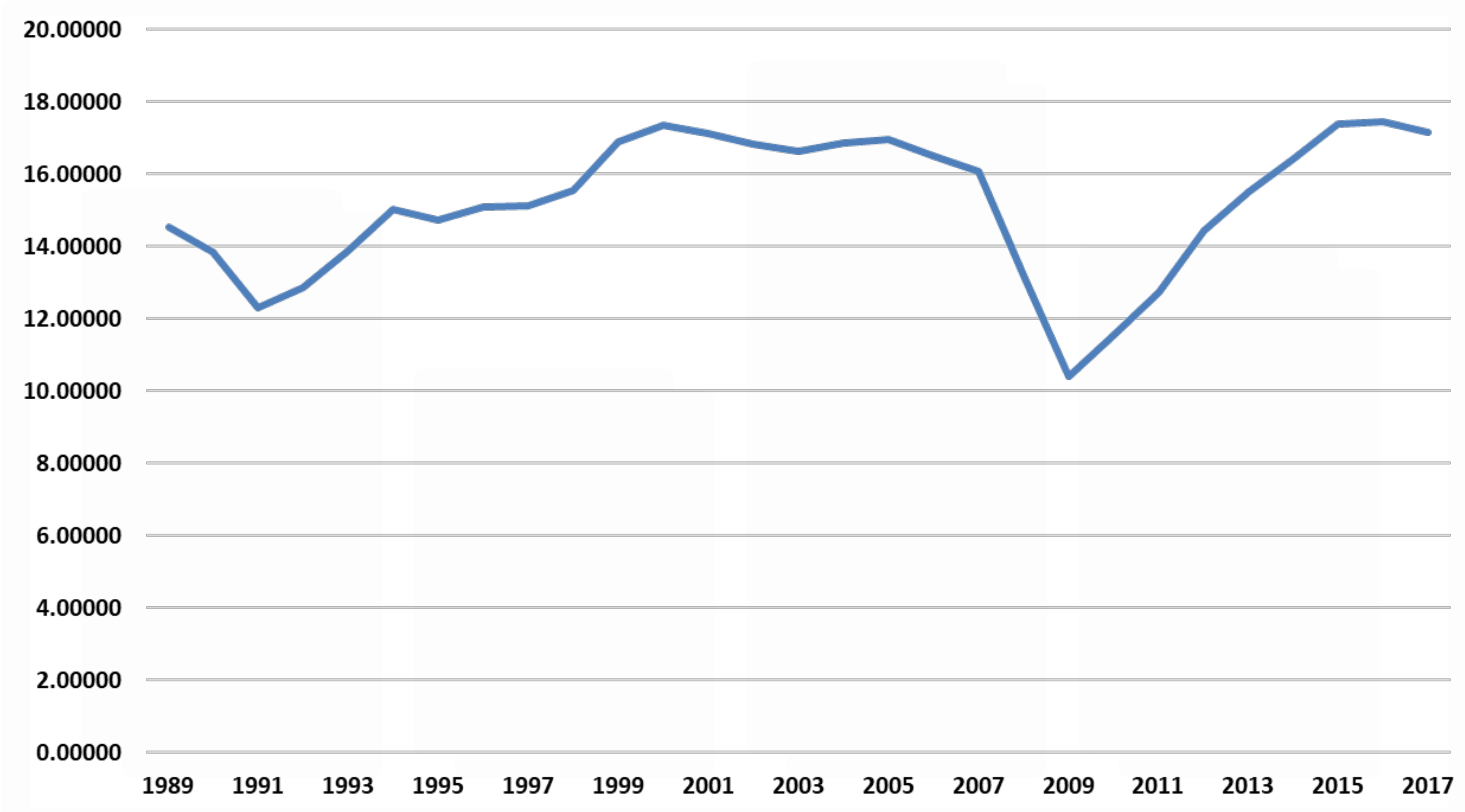
Growth in Quarterly Real Personal Consumption Expenditures (chained 2012 dollars)



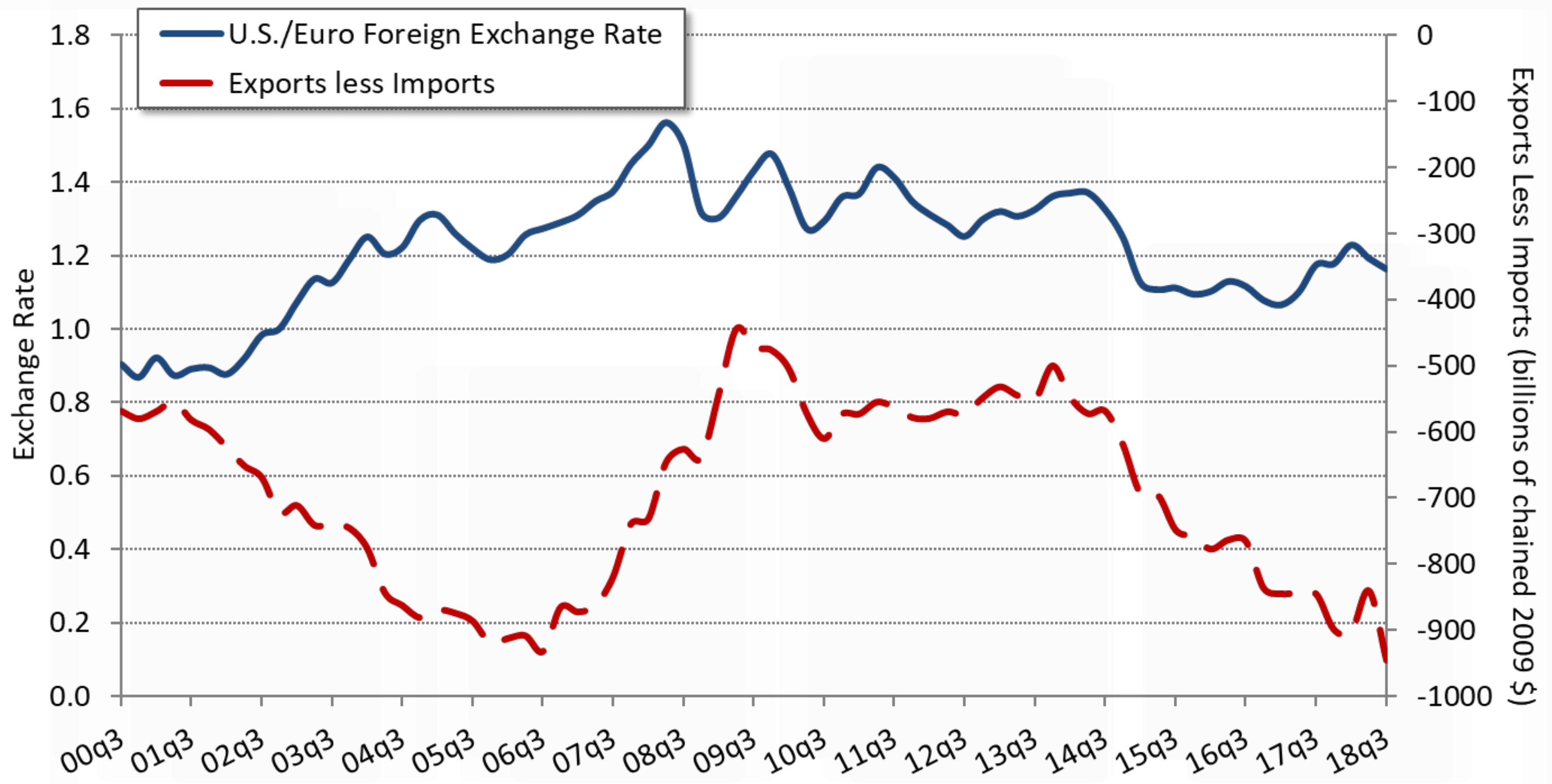
Growth in Quarterly Real Private Residential Fixed Investment and Housing Starts



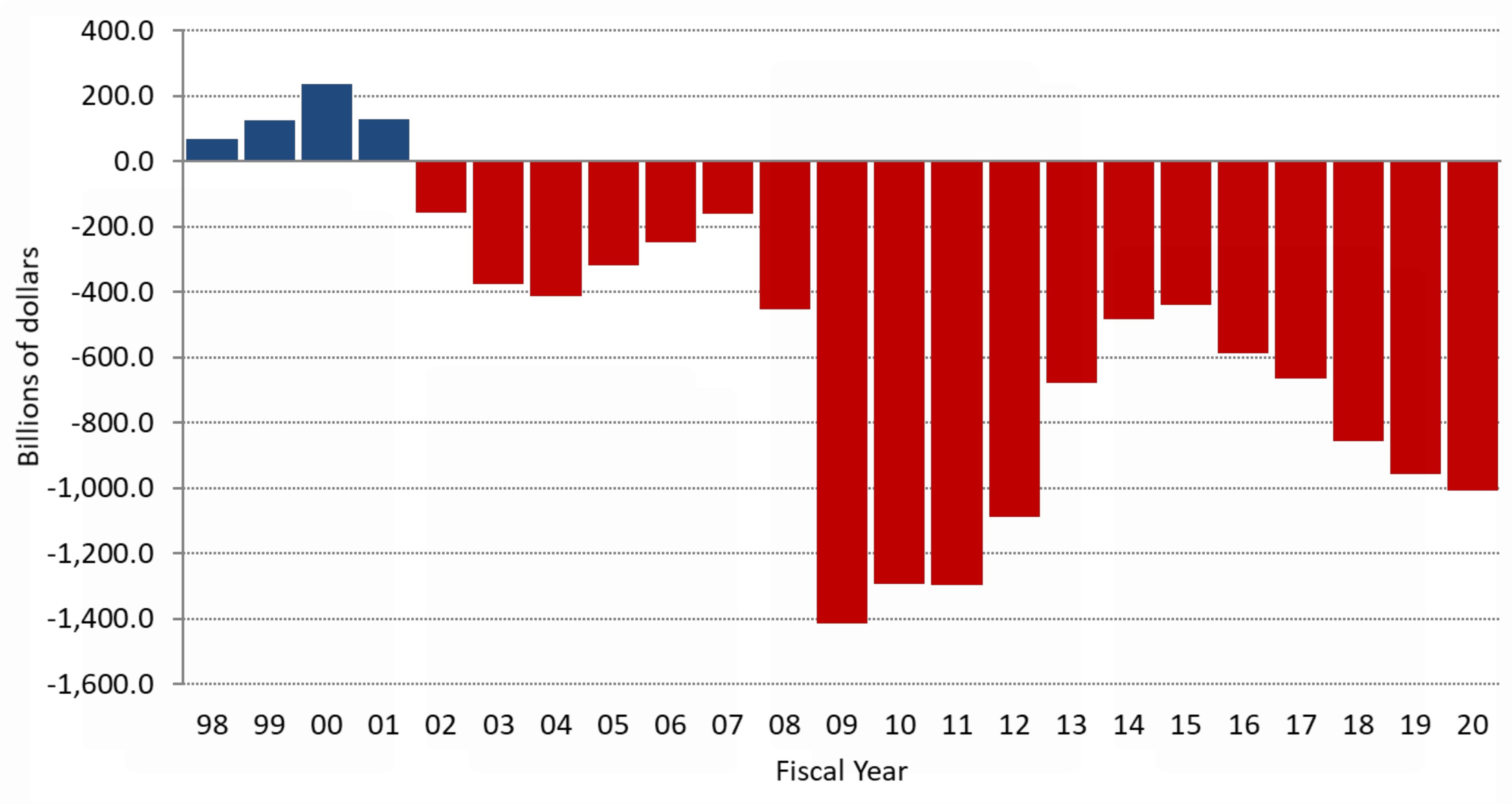
Unit Sales of New Light Vehicles



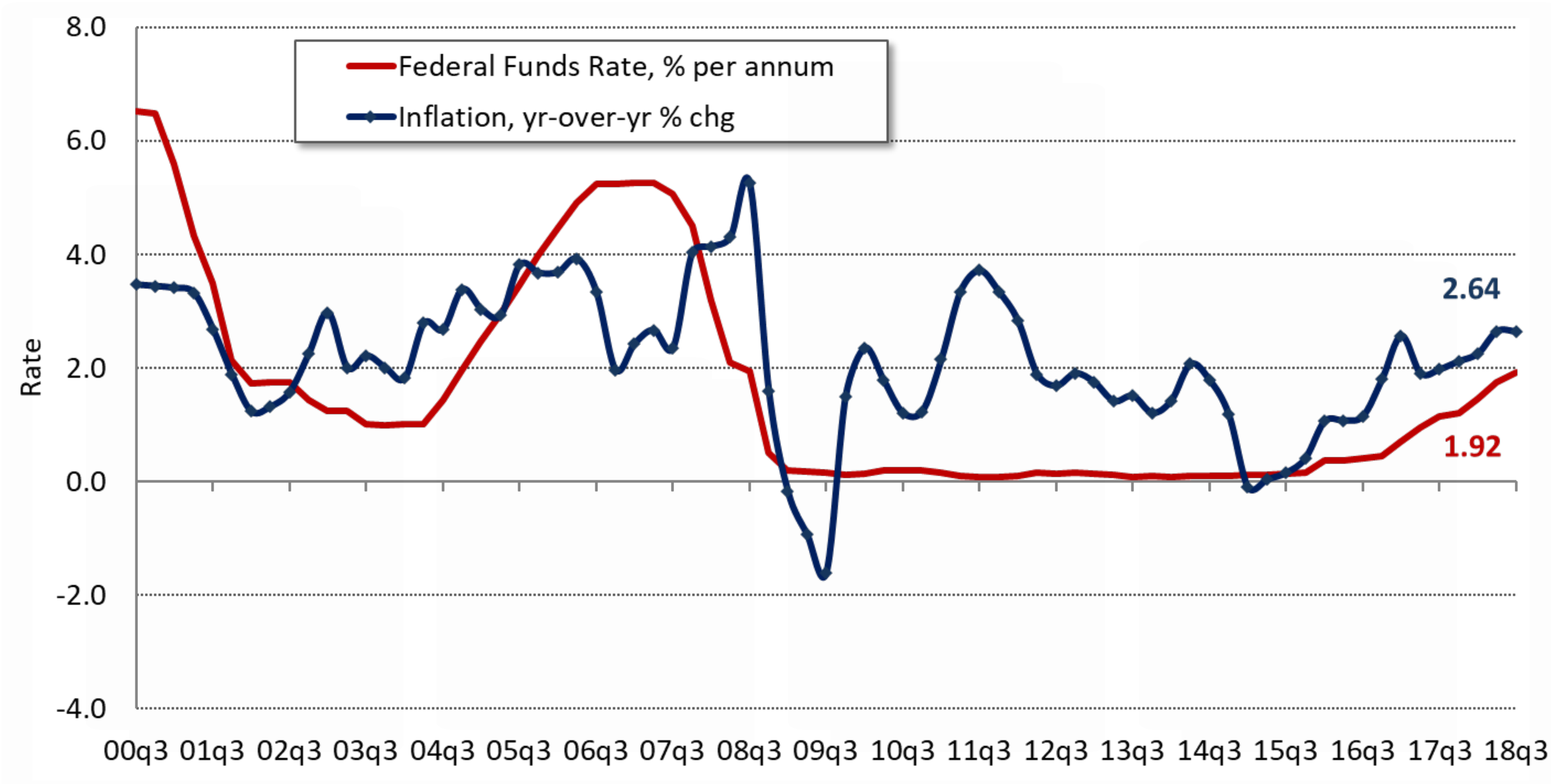
U.S./Euro Foreign Exchange Rate and Real Exports Less Imports



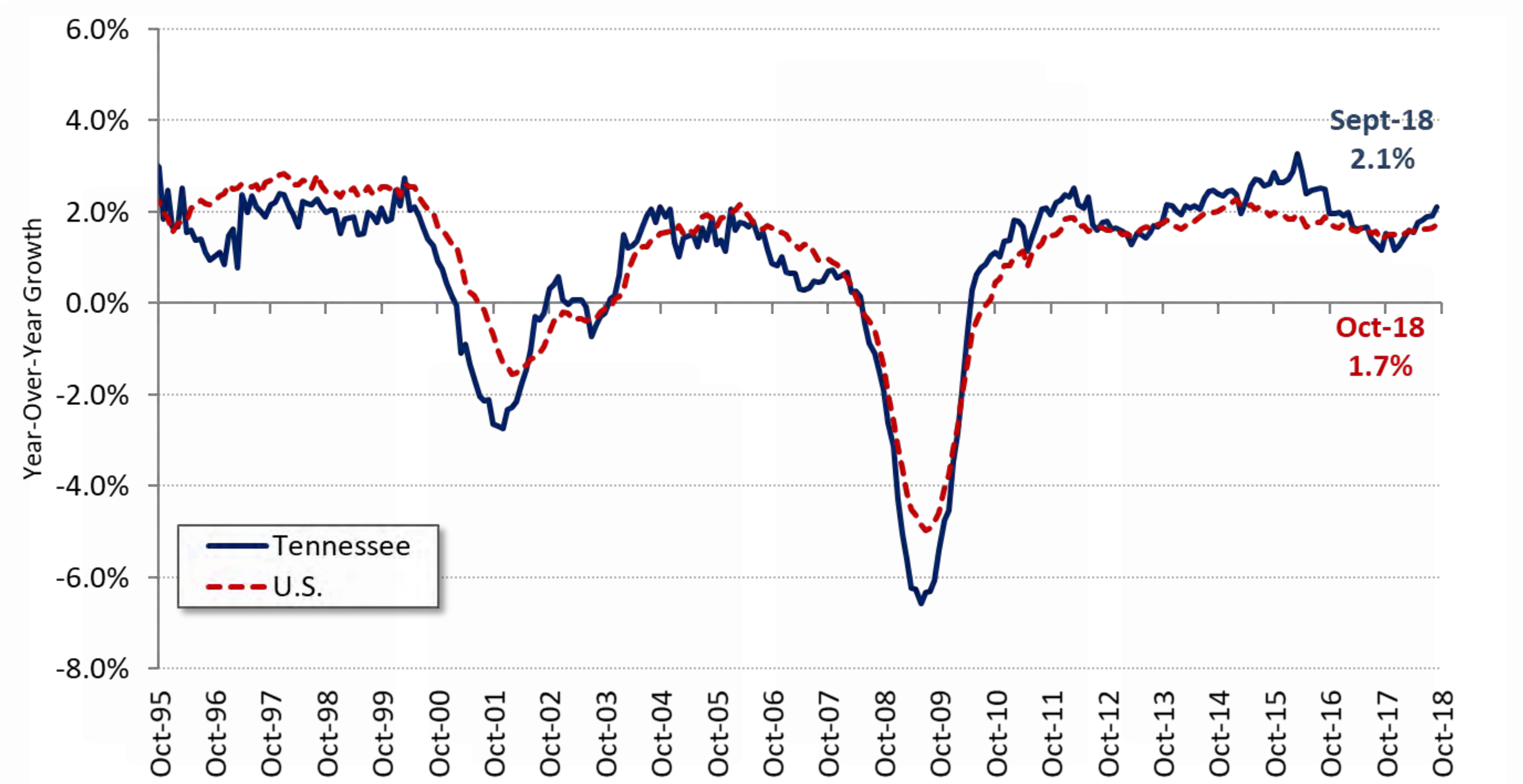
Unified Federal Budget Surplus



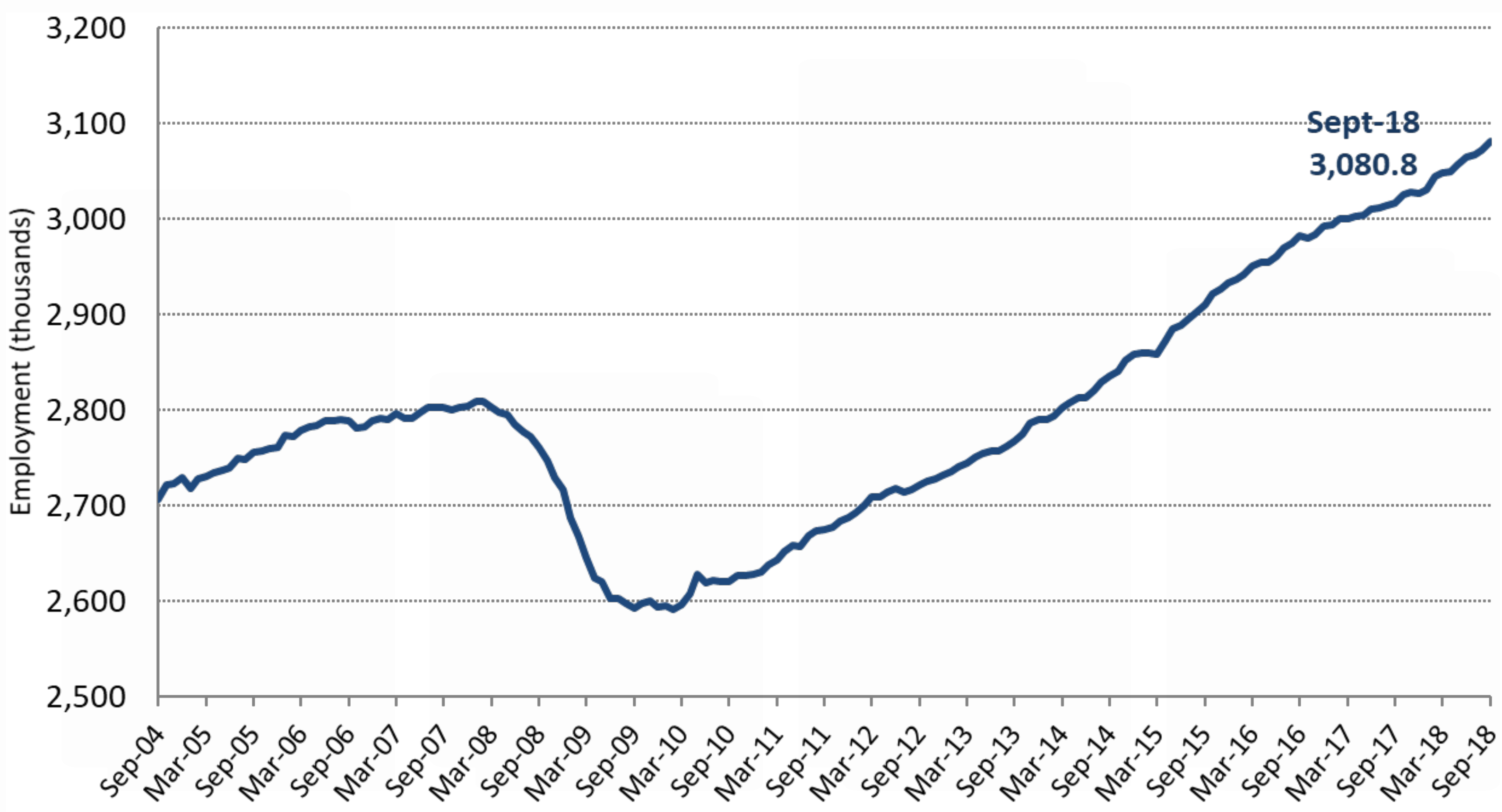
Interest Rates and Inflation



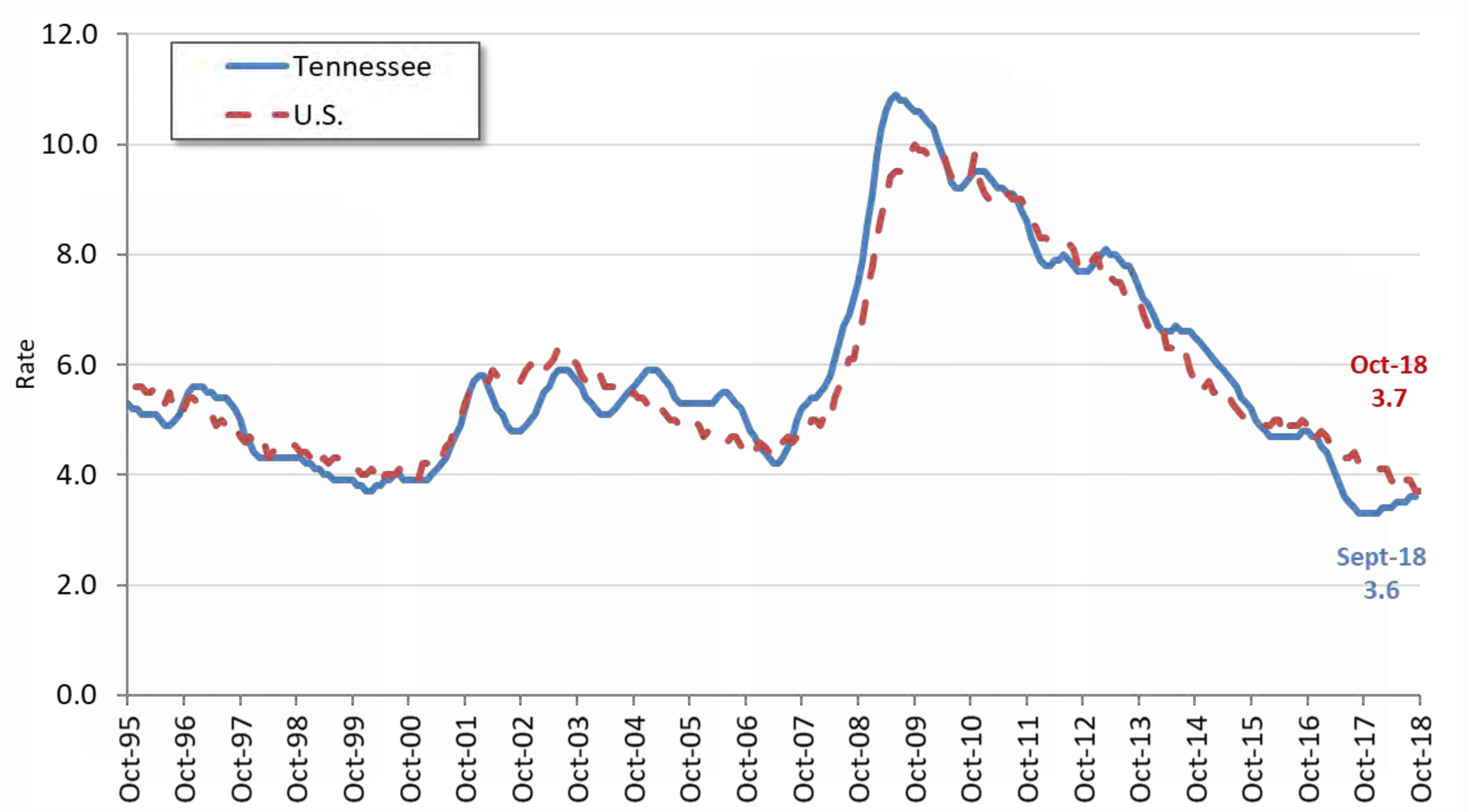
Tennessee and U.S. Nonfarm Job Growth
(year-over-year growth)



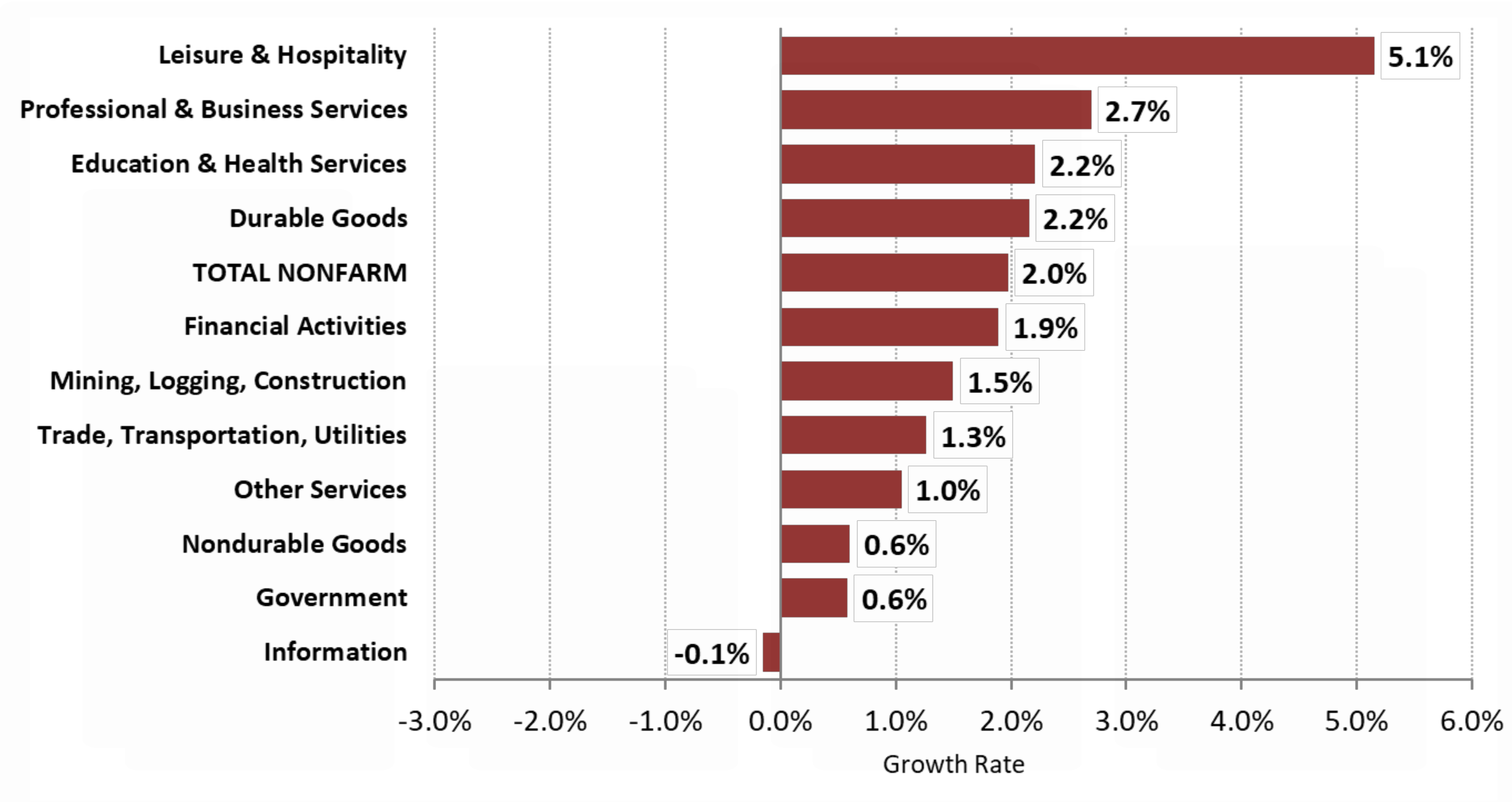
Tennessee Monthly Nonfarm Jobs
(seasonally adjusted)



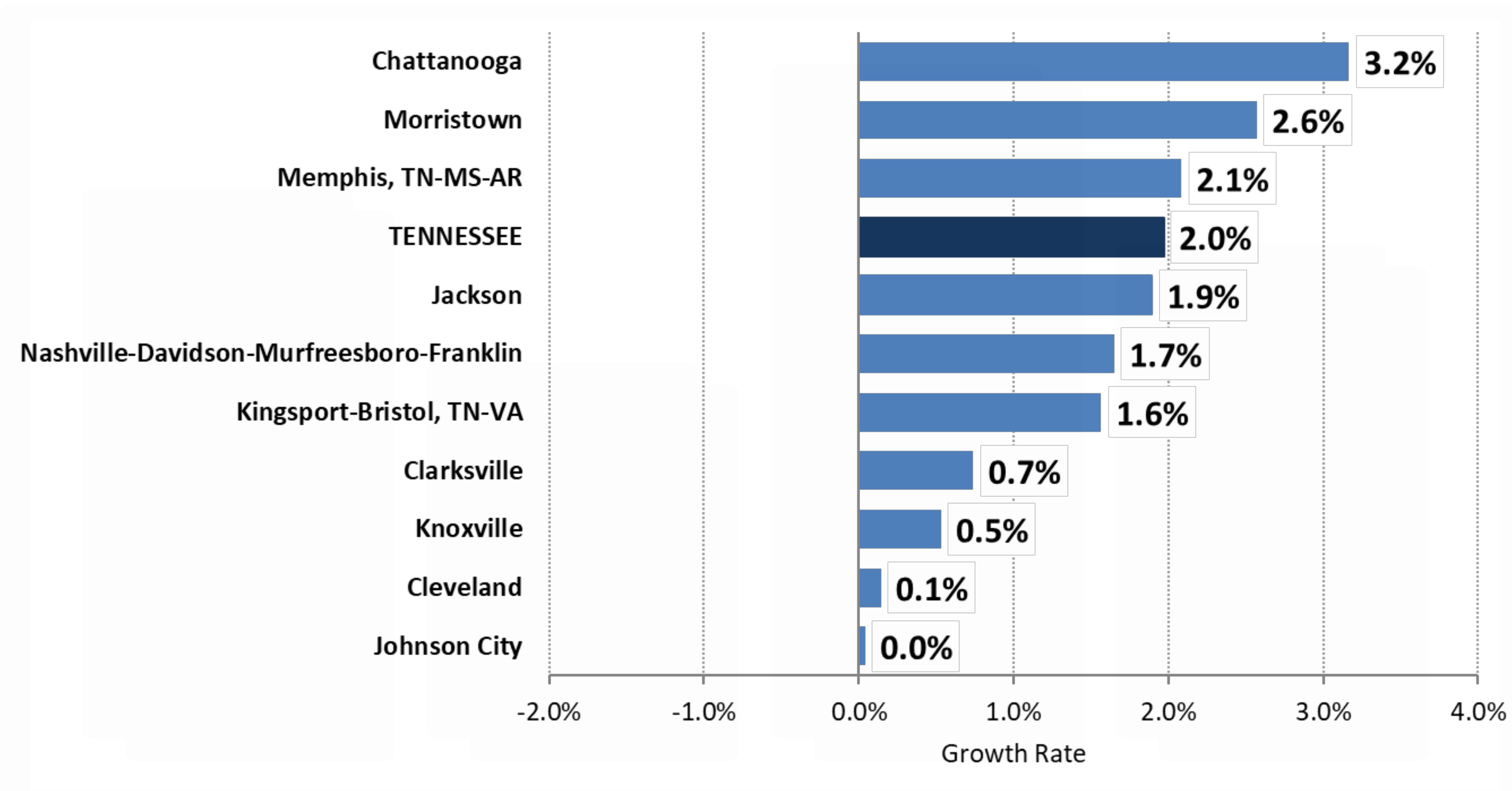
Tennessee and U.S. Unemployment Rate
(seasonally adjusted)



Tennessee Job Growth by Sector
(Quarter Ending Sept. 2017 to Sept. 2018)

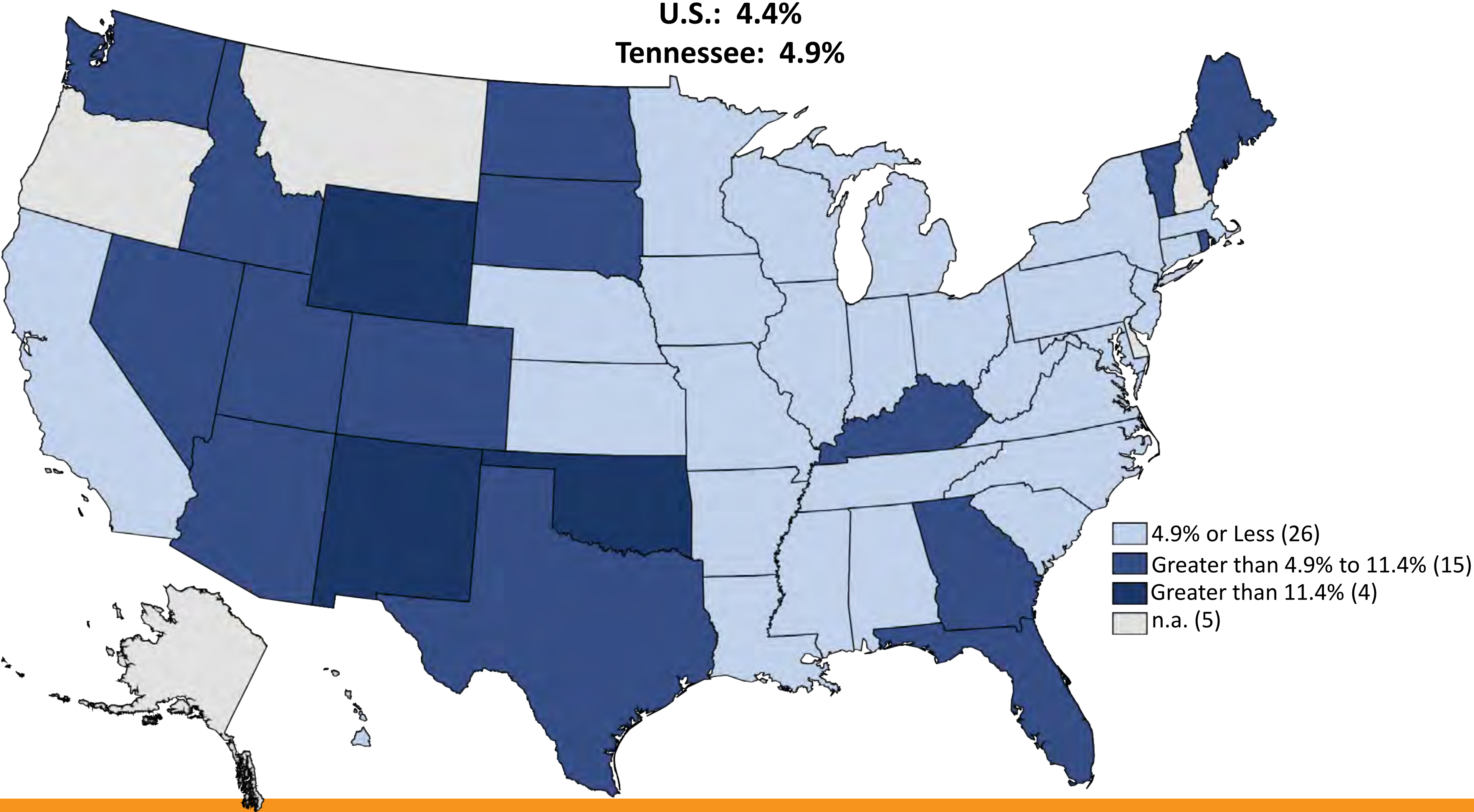


Nonfarm Employment Growth, MSAs
(Quarter Ending Sept. 2017 to Sept. 2018)



Change in Sales Taxes, January–March, 2017 to 2018

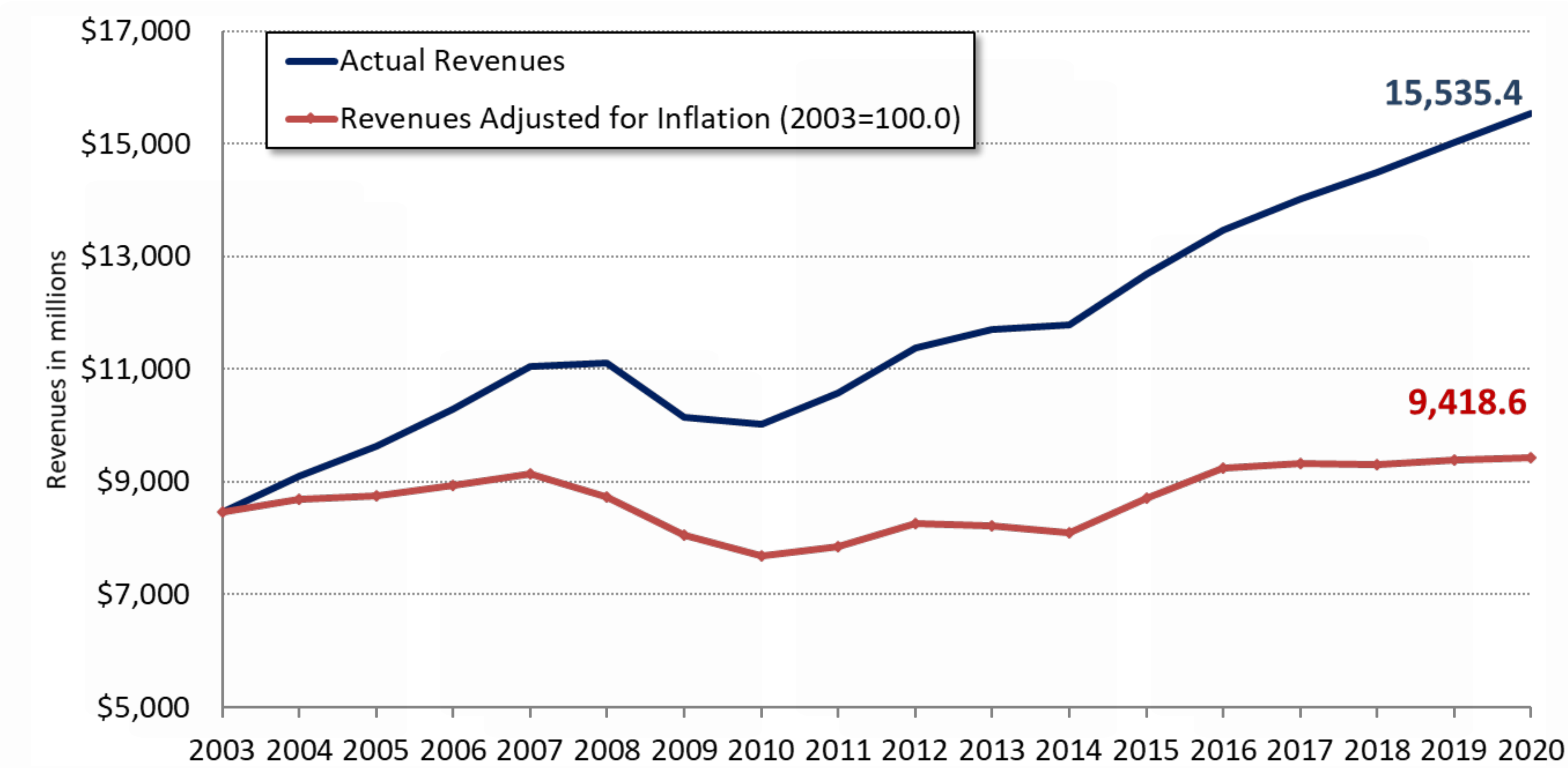
U.S.: 4.4%
Tennessee: 4.9%



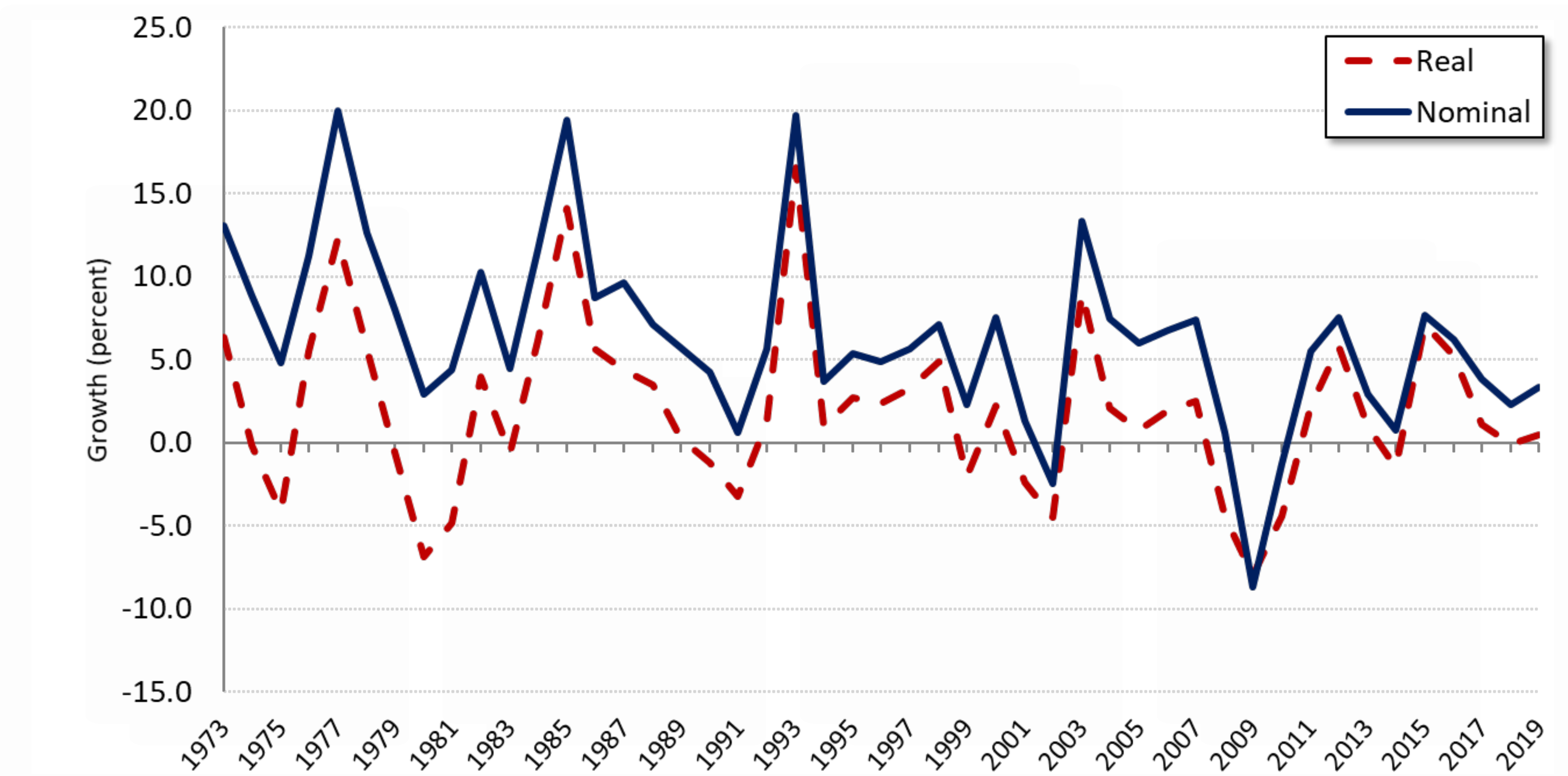
Tennessee Department of Revenue Collections (Millions of Dollars)	2018			2019			2020		
	Amount	Percent Change	General Fund	Amount	Percent Change	General Fund	Amount	Percent Change	General Fund
Sales and Use	8,835.2	3.3	8,294.1	9,206.3	4.2	8,650.9	9,510.1	4.2	8,936.4
Gasoline	807.7	20.6	12.9	841.4	4.2	14.0	875.0	4.2	14.5
Motor Fuel	222.7	25.5	2.1	257.1	15.4	3.6	289.2	15.4	4.1
Gasoline Inspection	69.0	1.1	20.1	69.7	1.0	20.5	70.4	1.0	20.7
Motor Vehicle Registration	327.4	19.0	52.0	335.9	2.6	54.9	339.3	2.6	55.4
Income	246.0	-1.6	164.8	191.9	-22.0	126.1	133.0	-22.0	87.5
Privilege	360.1	-5.2	354.1	374.5	4.0	368.9	389.5	4.0	383.6
Gross Receipts	368.4	-1.4	211.5	385.3	4.6	221.0	386.3	4.6	221.6
Gross Receipts - TVA	343.6	0.6	190.1	360.0	4.8	198.1	360.0	4.8	198.1
Gross Receipts - Other	24.8	-22.3	21.3	25.3	2.0	20.9	26.3	2.0	21.7
Beer	16.7	-2.9	11.2	16.9	1.0	11.3	16.9	1.0	11.3
Alcoholic Beverage	66.7	3.9	55.1	70.7	6.0	58.5	74.9	6.0	62.0
Franchise & Excise	2,570.7	-1.9	2,317.1	2,663.2	3.6	2,406.2	2,823.0	3.6	2,550.6
Inheritance & Estate	-0.7	-107.6	-0.7	0.0	-100.0	0.0	0.0		0.0
Tobacco	248.2	-2.9	248.2	245.7	-1.0	245.7	240.8	-1.0	240.8
Motor Vehicle Title	25.2	5.4	22.5	25.4	1.0	22.6	26.2	1.0	23.3
Mixed Drink	119.3	13.0	59.7	127.7	7.0	63.8	136.6	7.0	68.3
Business	198.3	14.6	198.3	210.2	6.0	210.2	222.8	6.0	222.8
Severance	1.0	-14.8	0.5	1.1	7.6	0.3	1.1	7.6	0.3
Coin Amusement	0.3	0.0	0.3	0.2	0.0	0.2	0.2	0.0	0.2
Unauthorized Substance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	14,482.2	3.3	12,023.7	15,023.1	3.7	12,476.7	15,535.4	3.4	12,901.5
General Fund Growth		2.1			3.8			3.4	

November 20, 2018
William F. Fox
Boyd Center for Business and Economic Research
University of Tennessee, Knoxville

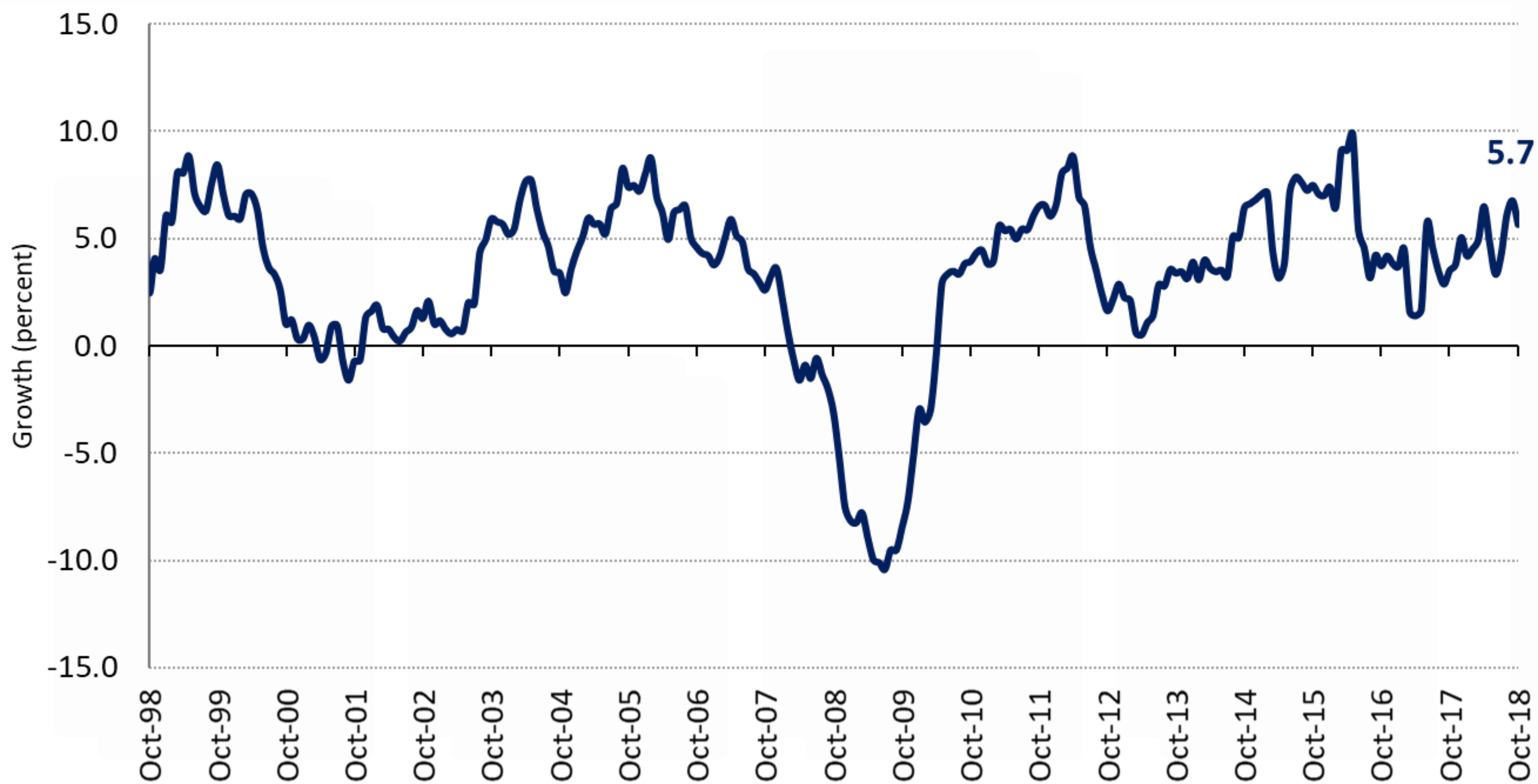
Actual Tax Collection Revenues and Revenues Adjusted for Inflation, 2003–2019



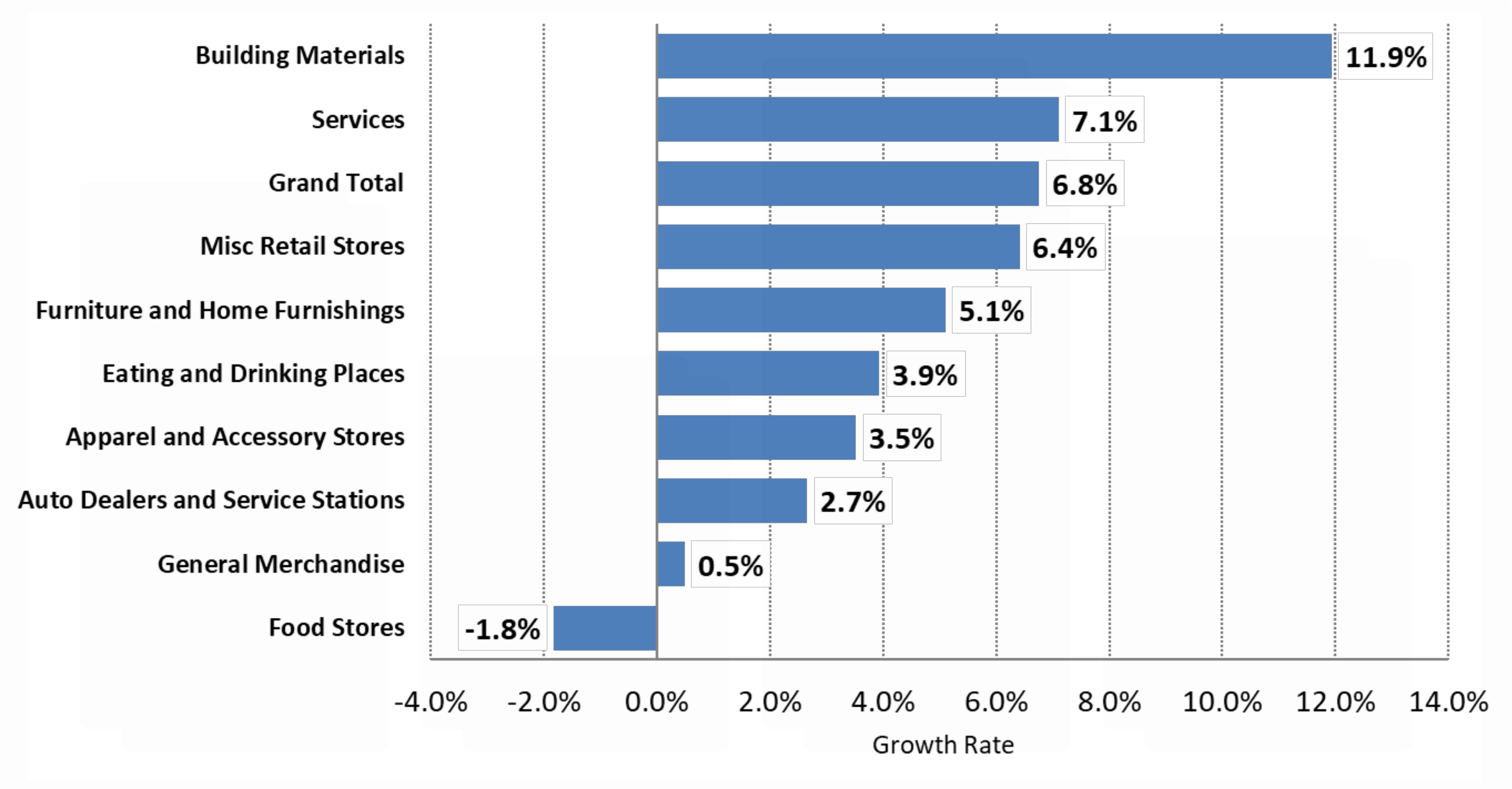
Growth in Adjusted Tax Collections
1973–2019



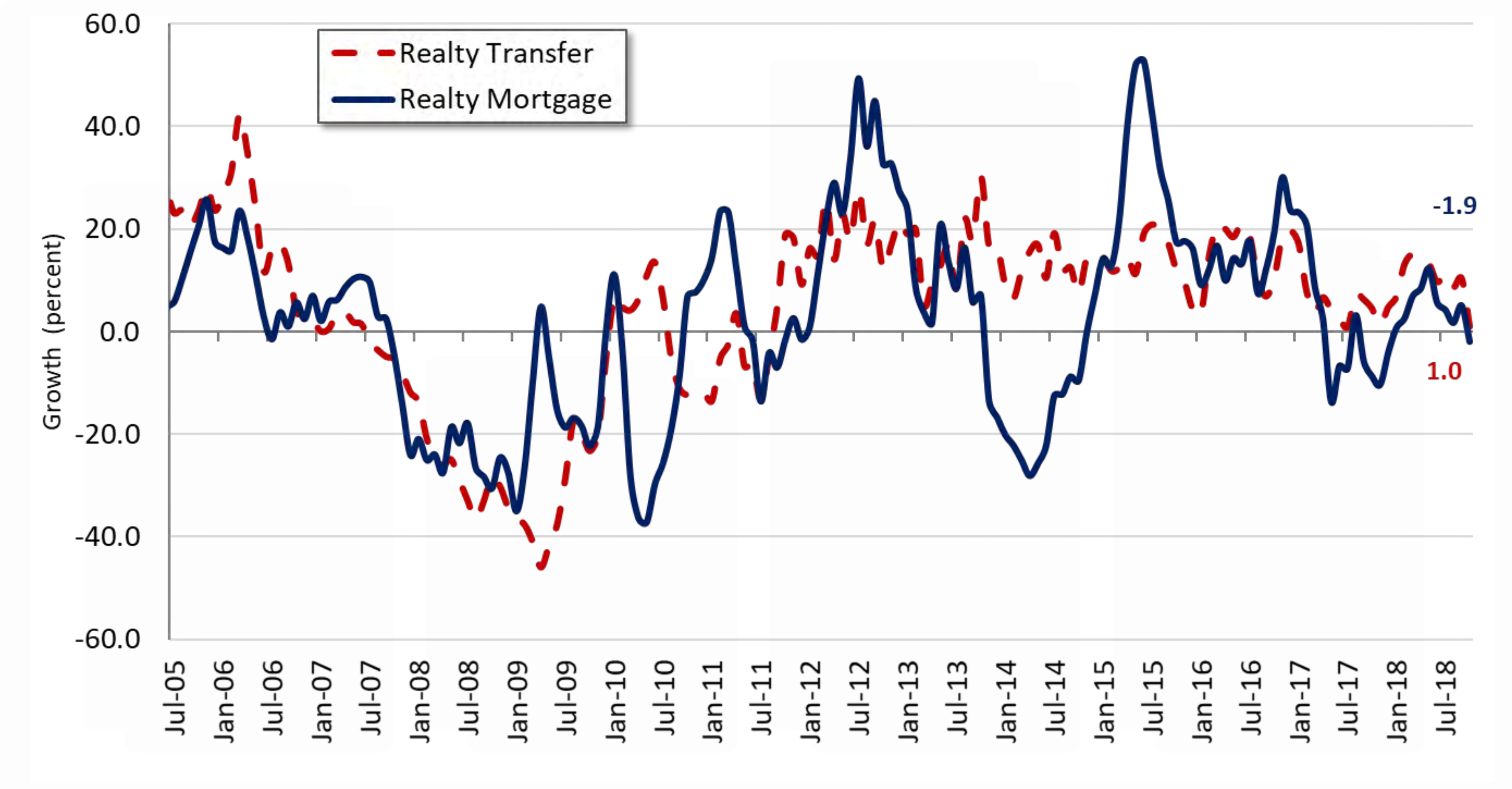
Growth in Sales Tax Revenue
(3-month moving average)



Sales Tax Collections by Category of Sales
(Quarter Ending July 2016 to July 2017)



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



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FEDERAL RESERVE BANK of ATLANTA

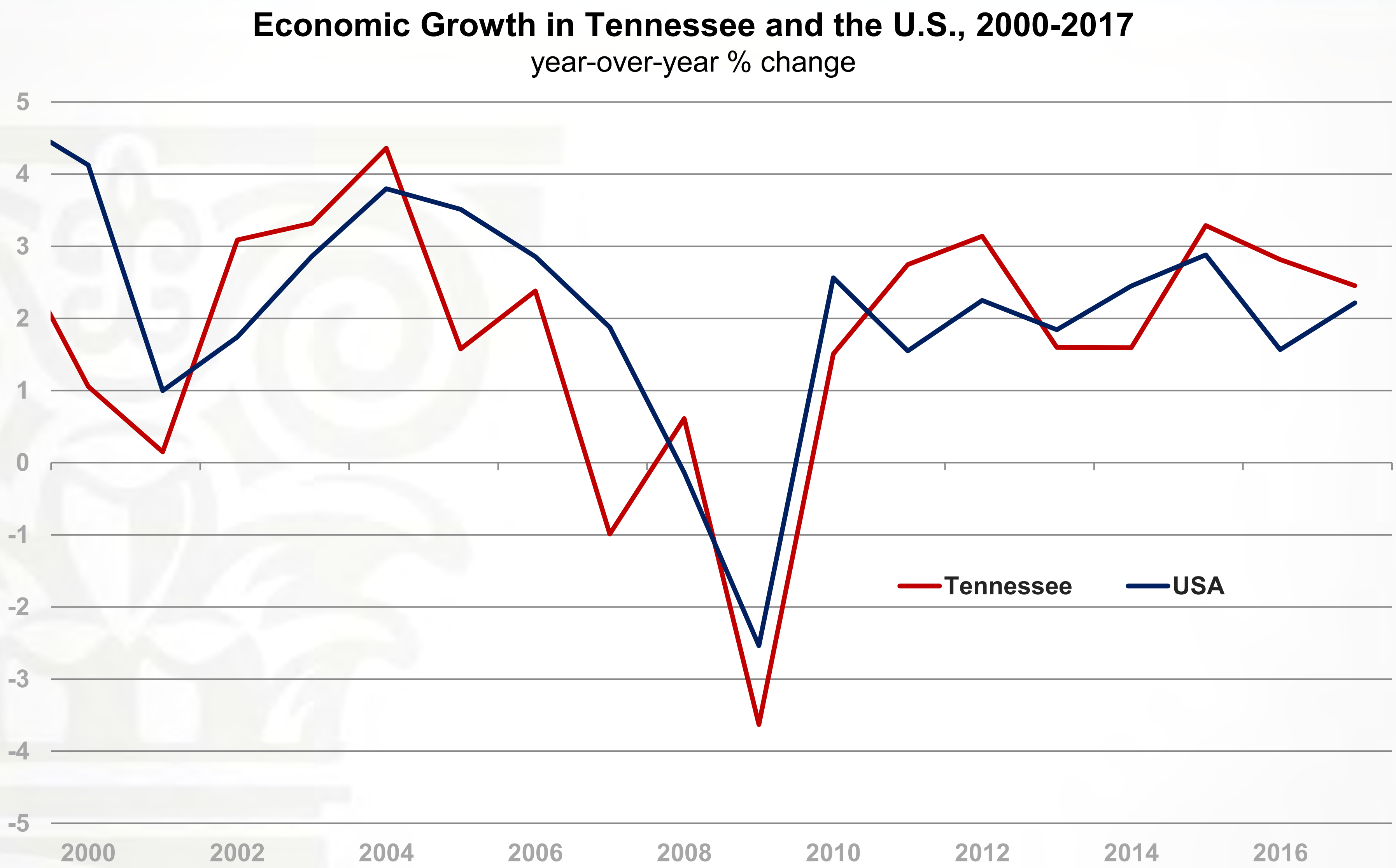
Tennessee State Funding Board

November 20, 2018

Laurel Graefe

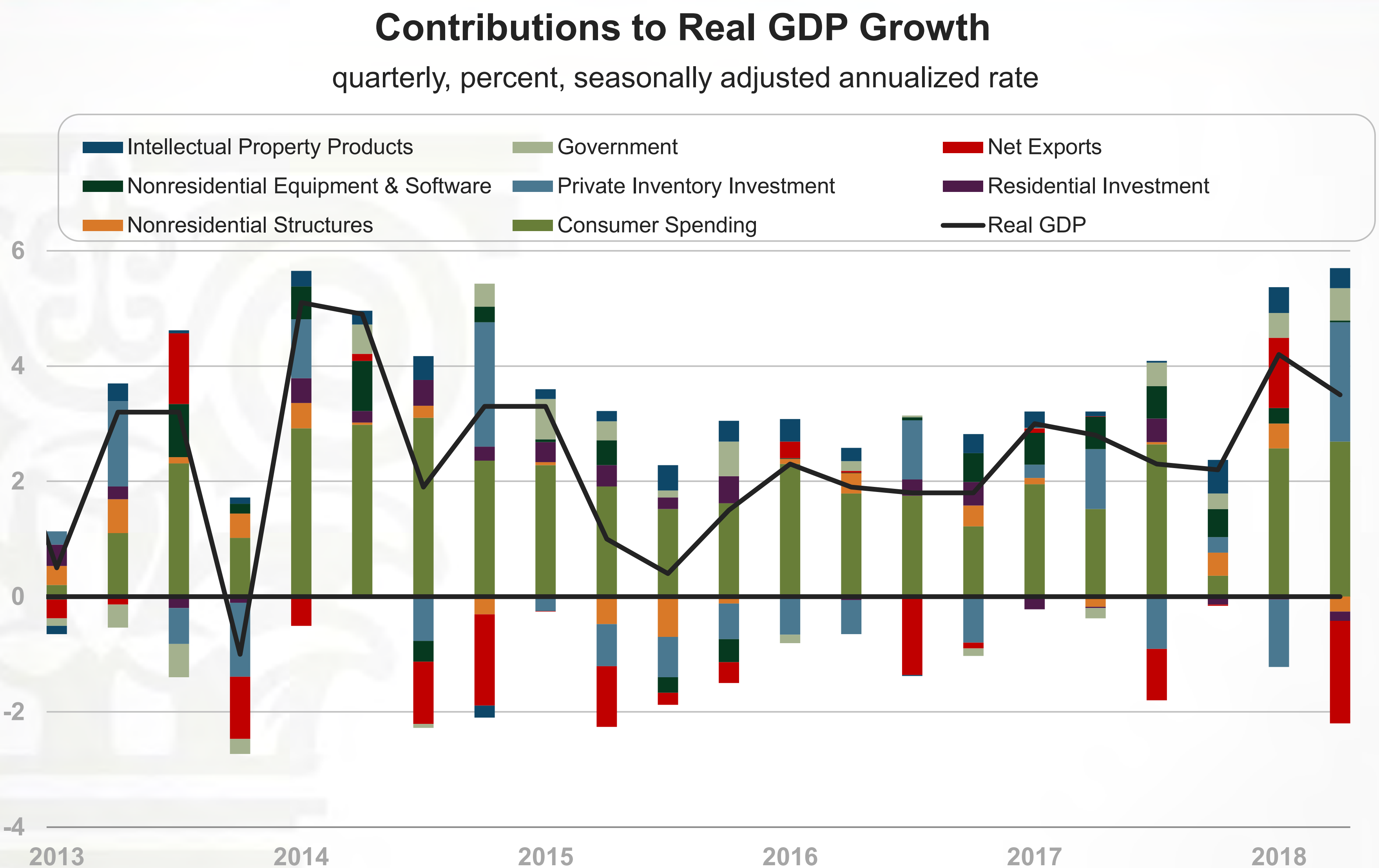
Regional Executive - Tennessee

Tennessee's economic performance continues to closely mirror that of the United States.



Source: Bureau of Economic Analysis; Haver Analytics

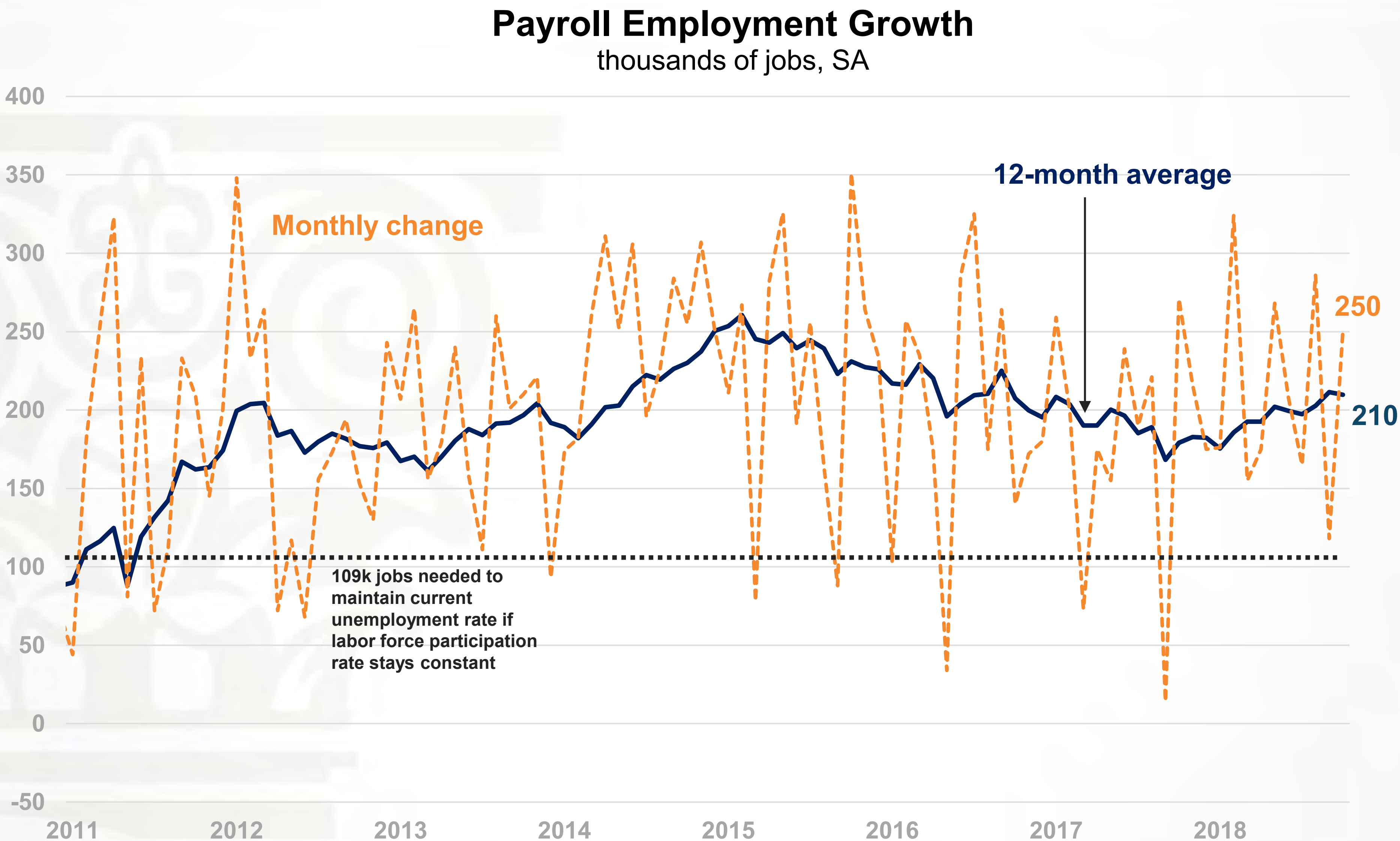
Real Gross Domestic Product grew 3.5% in Q3 2018. Consumer spending (green) continues to be key to GDP growth.



Sources: Bureau of Economic Analysis; Haver Analytics

through Q3, 2018

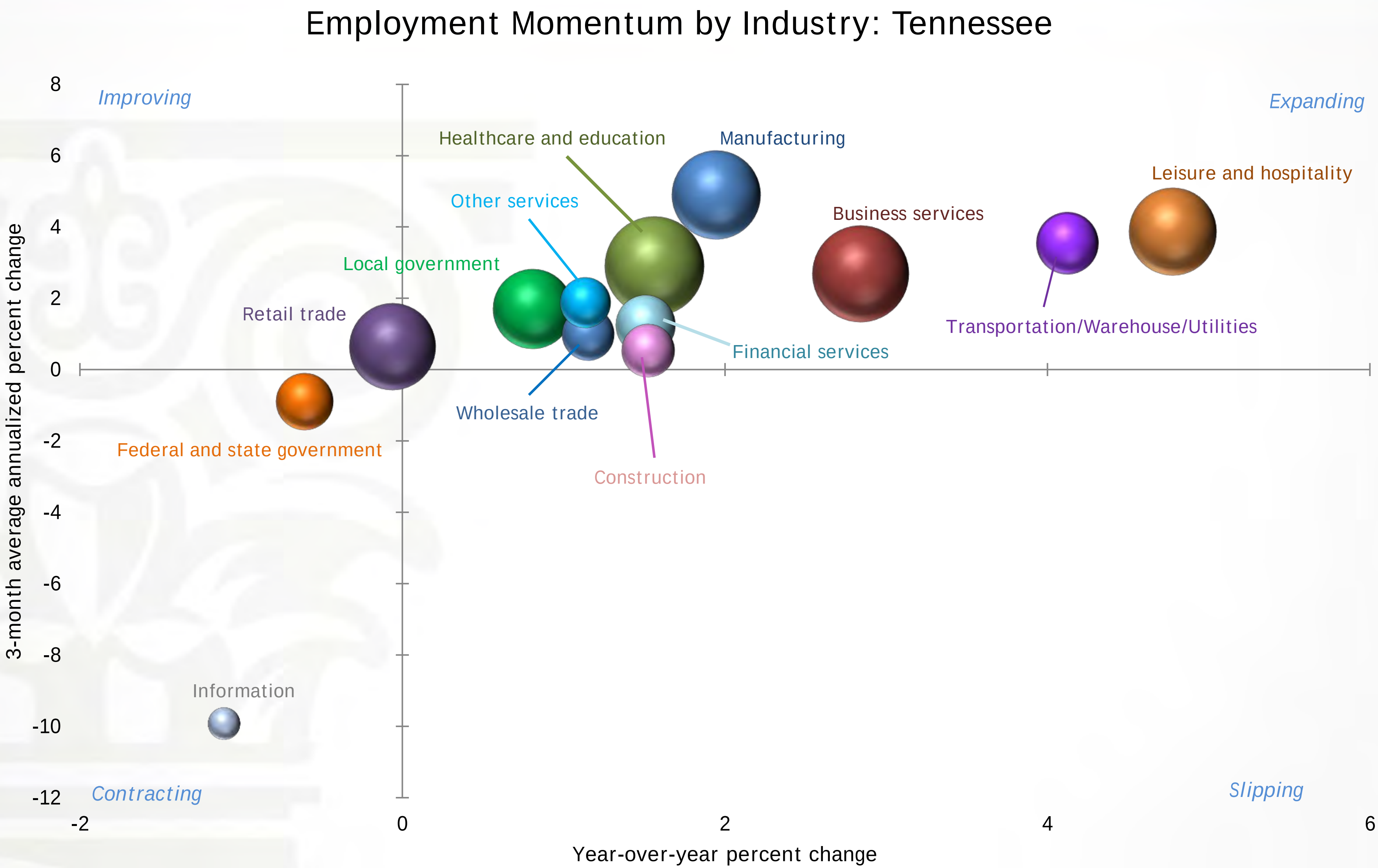
The U.S. economy added a net 250,000 jobs in October, well above the threshold needed to continue to make progress in the labor market.



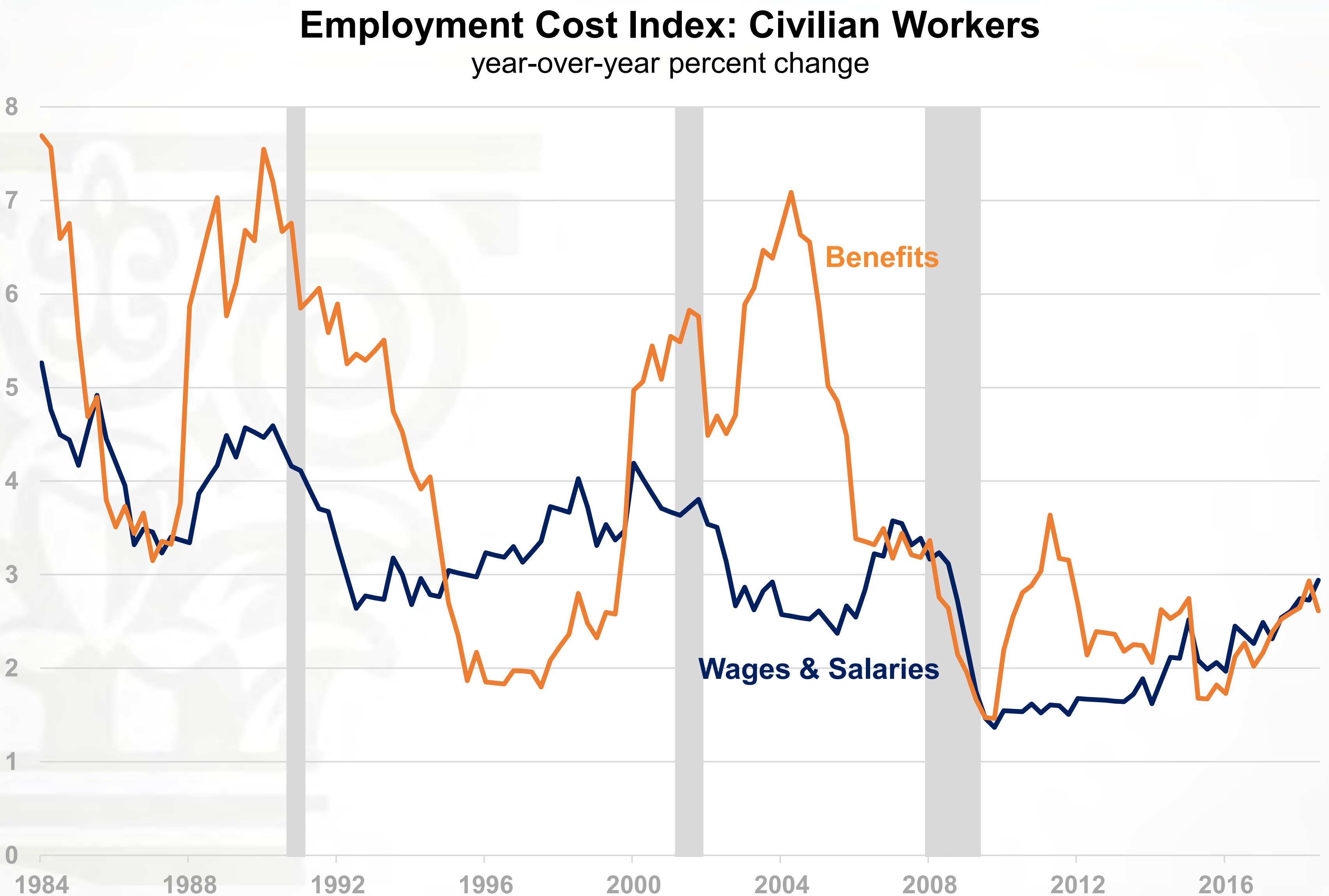
Sources: Bureau of Labor Statistics, FRB staff calculations; Haver Analytics

data through October 2018

Employment growth momentum in Tennessee has been positive, with employment in most industries expanding over both the past 3 and 12 months.



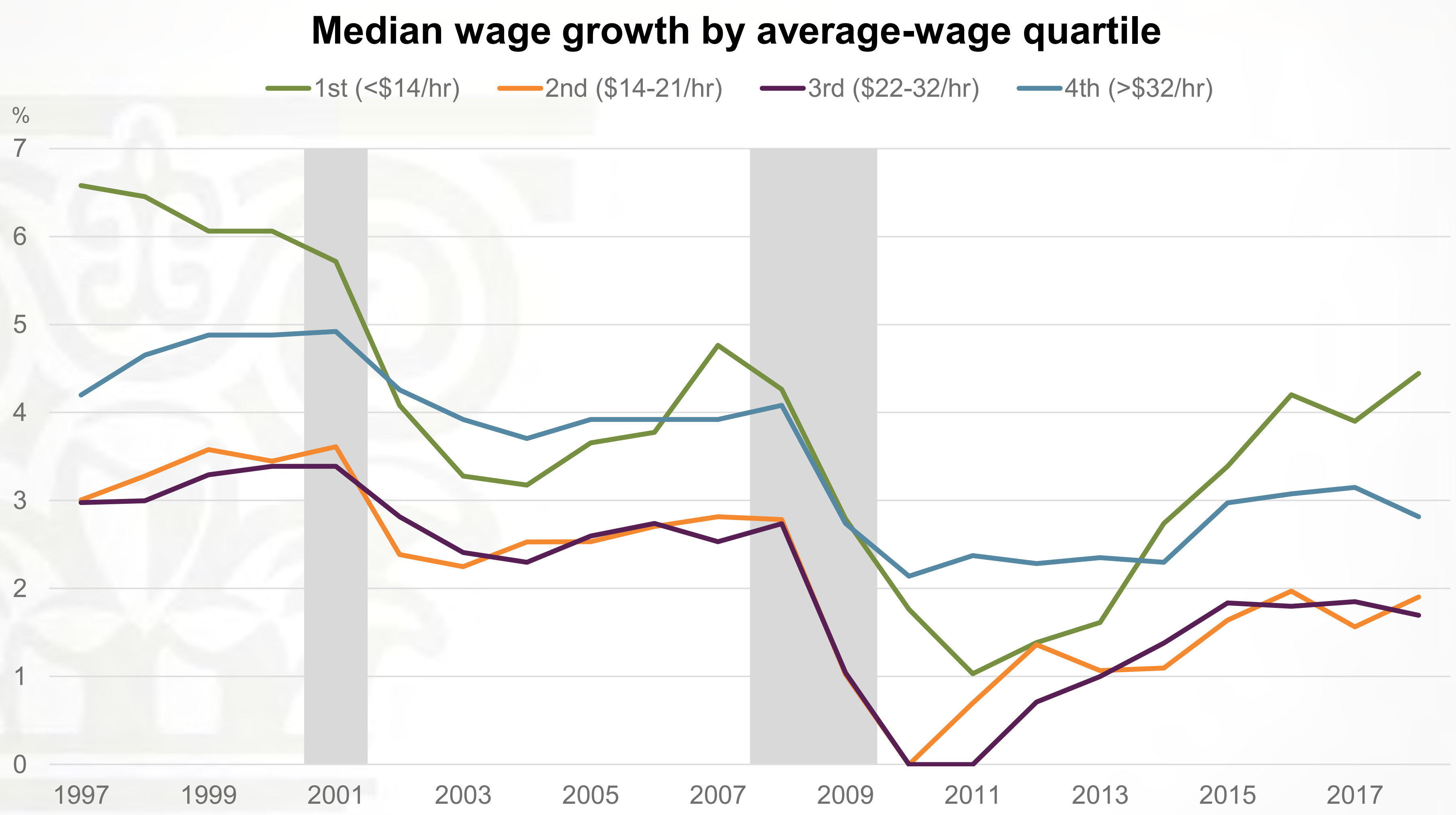
Wage growth has picked up, but still remains relatively muted historically. Contrary to much of the history of the series, benefits growth appears to be in-line with the growth of wages & salaries.



Source: Bureau of Labor Statistics; Haver Analytics

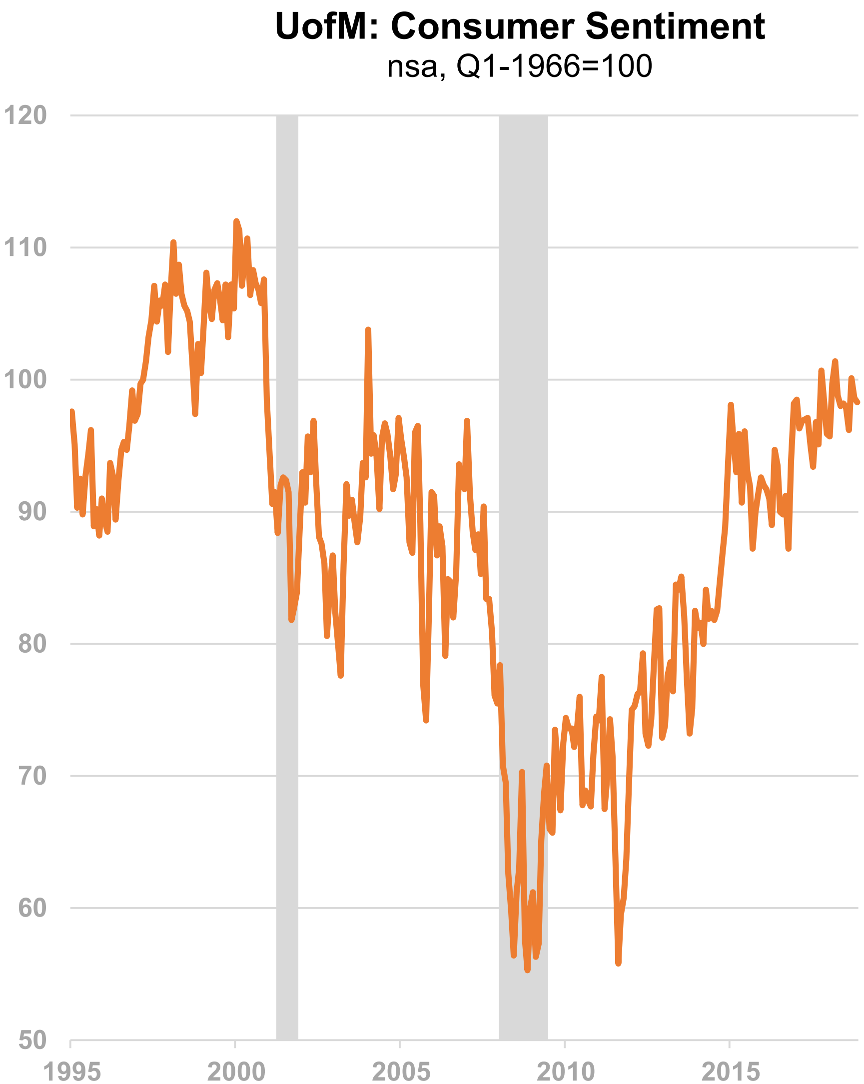
data through Q3-2018

The acceleration in wage growth has generally been focused on the low- and high-wage earners, while growth for middle income earners has been more modest.



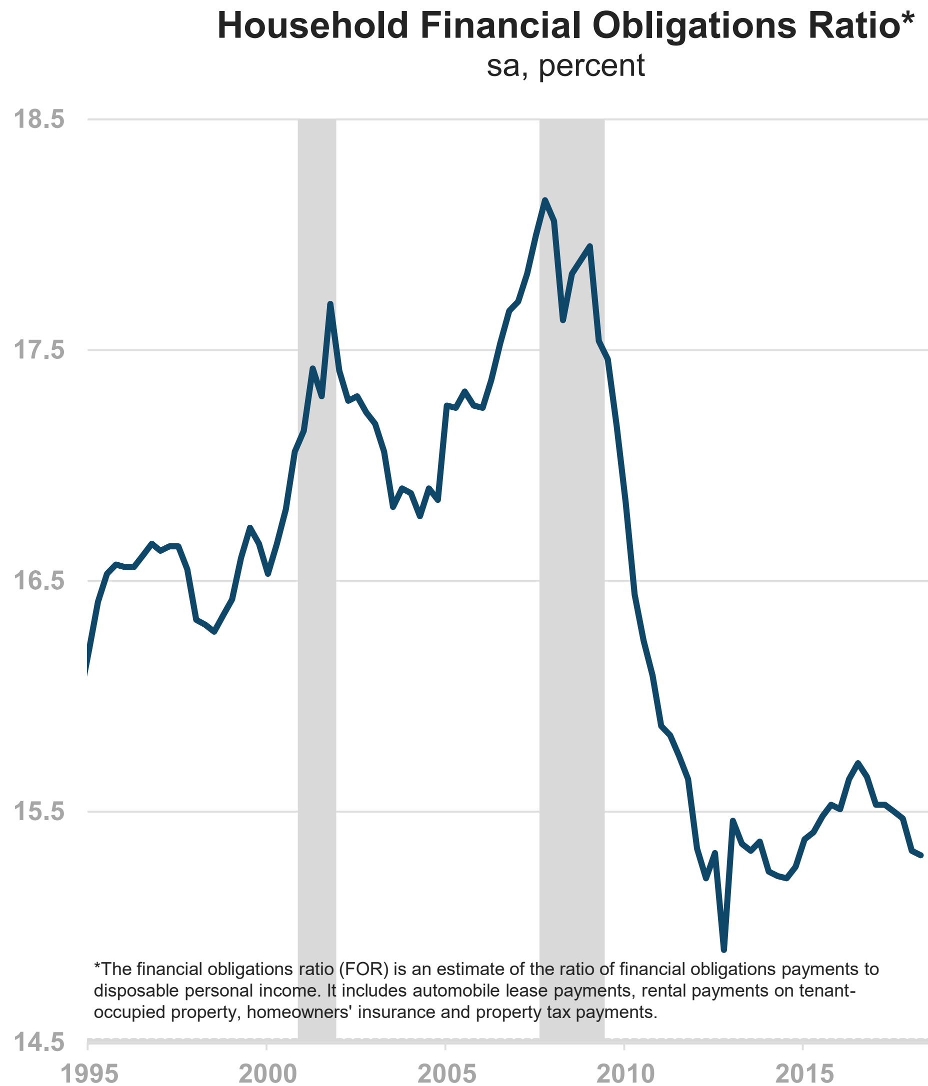
Source: Current Population Survey, Bureau of Labor Statistics, and author calculations

Consumer attitudes remain favorable and a broad measure of household indebtedness suggests that households are in a relatively solid fiscal position.



Source: University of Michigan; Haver Analytics

data through November 2018



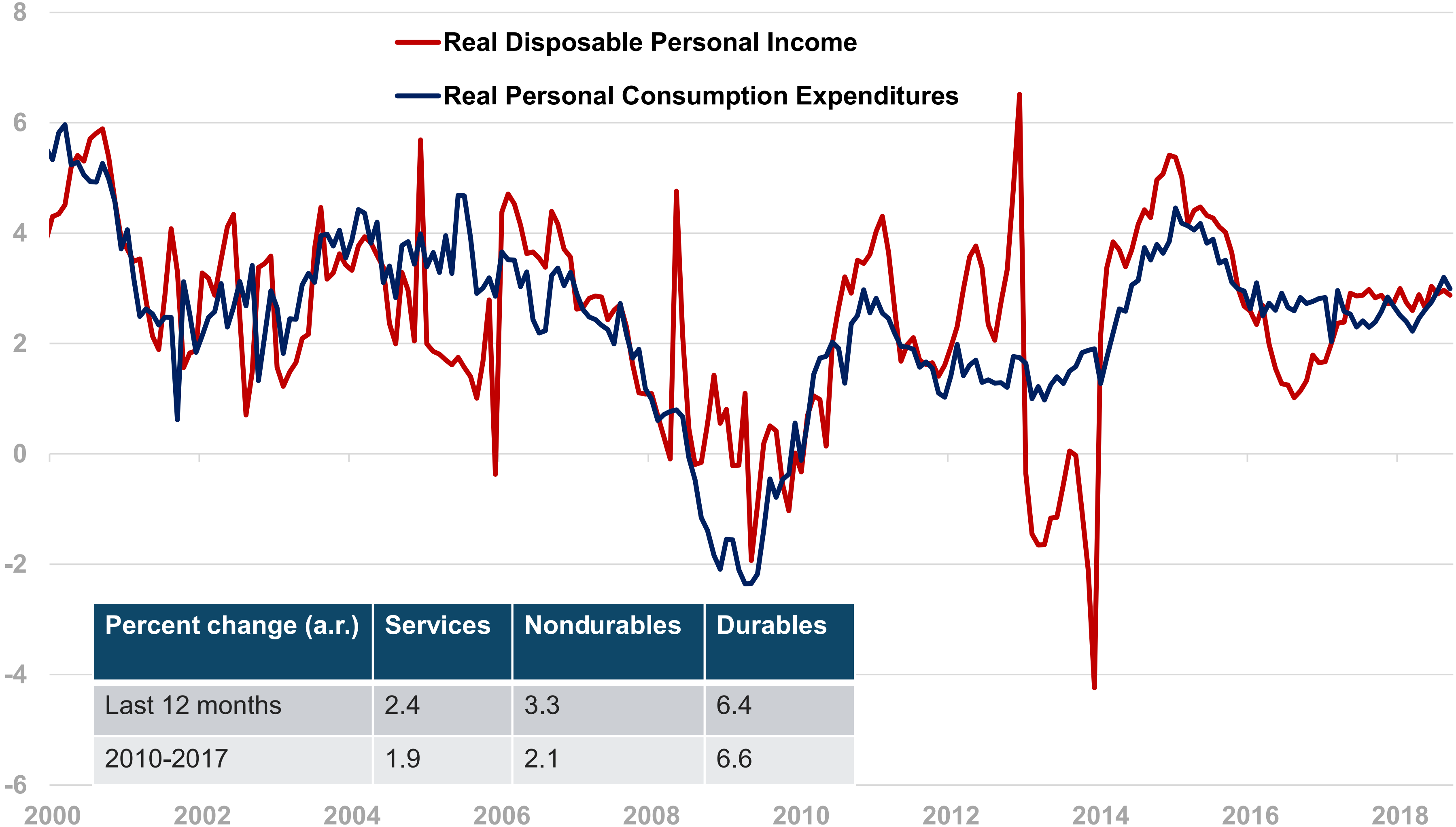
Source: Federal Reserve Board; Haver Analytics

data through Q2-2018

Consumer spending appears to be growing in line with income growth.

Real PCE and Disposable Personal Income

year-over-year percent change, saar, bil.chn.2012$

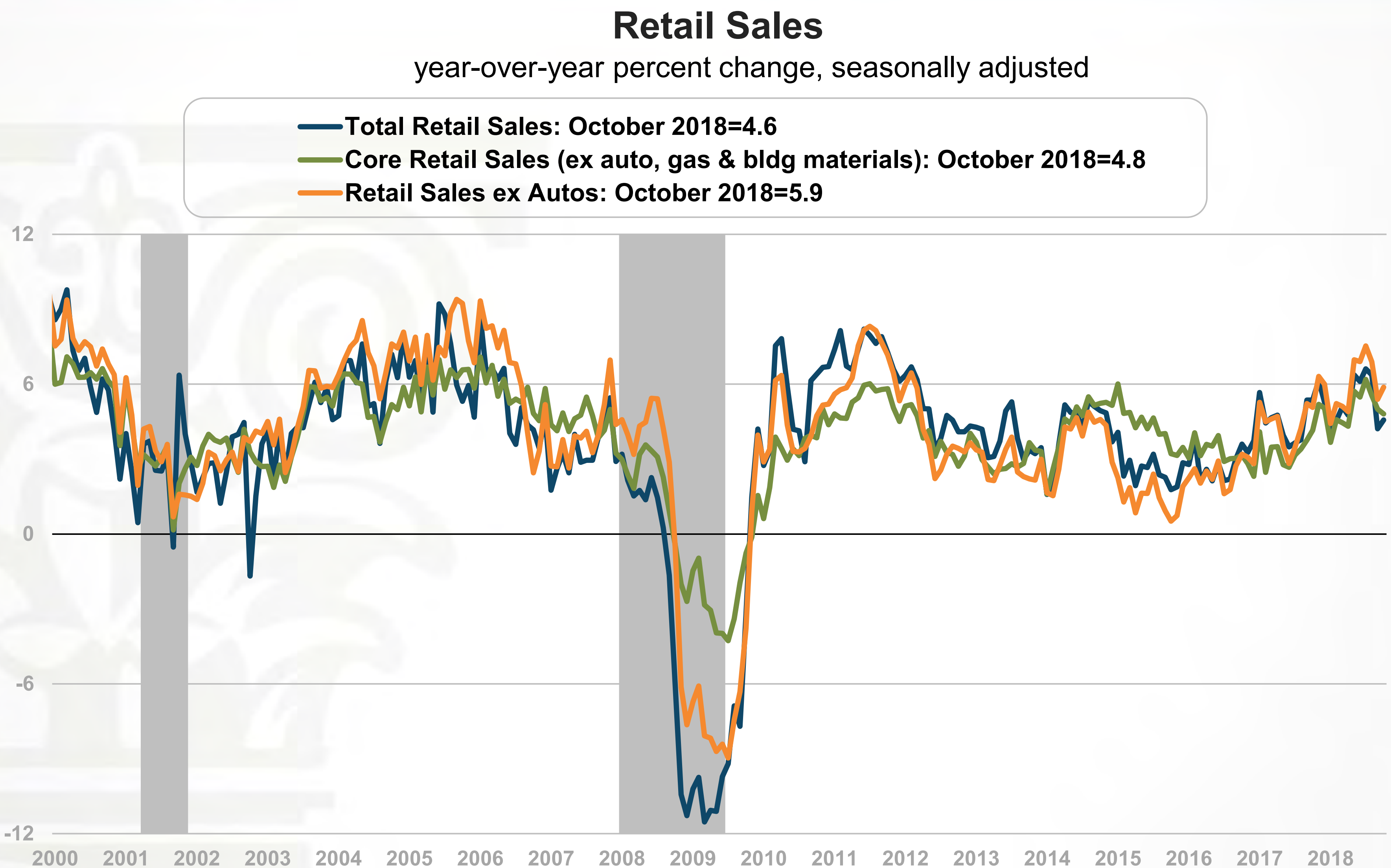


Percent change (a.r.)	Services	Nondurables	Durables
Last 12 months	2.4	3.3	6.4
2010-2017	1.9	2.1	6.6

Source: Bureau of Economic Analysis; Haver Analytics

data through September 2018

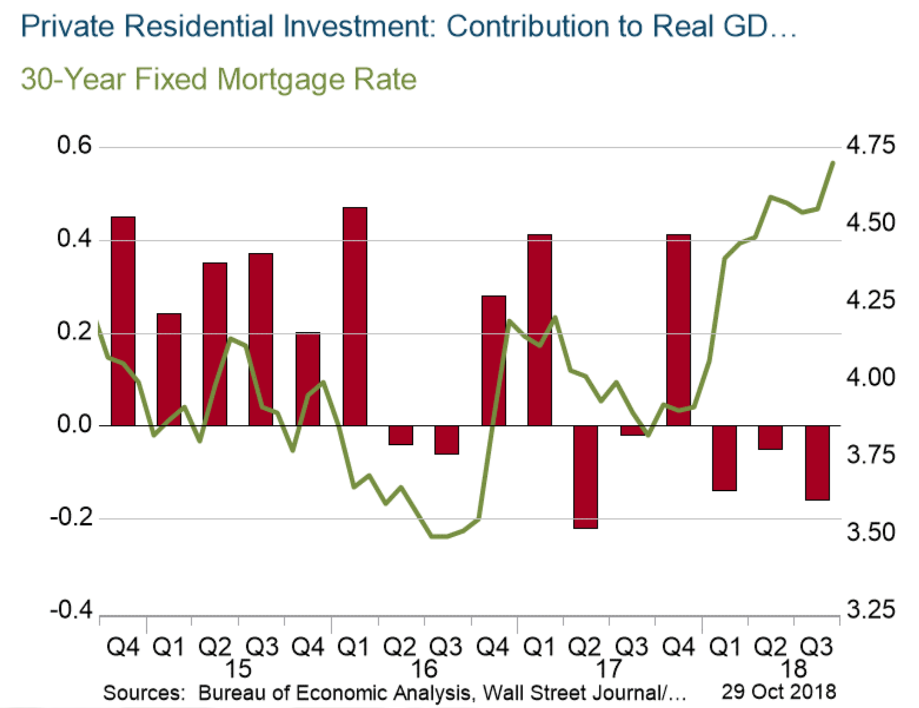
Retail sales growth has been on an upward trend over the past couple of years, with much of the recent strength appearing to be relatively broad based.



Source: U.S. Census Bureau/Haver Analytics

data through October 2018

Residential investment has been a drag on 2018 growth, with housing affordability becoming an increased challenge.

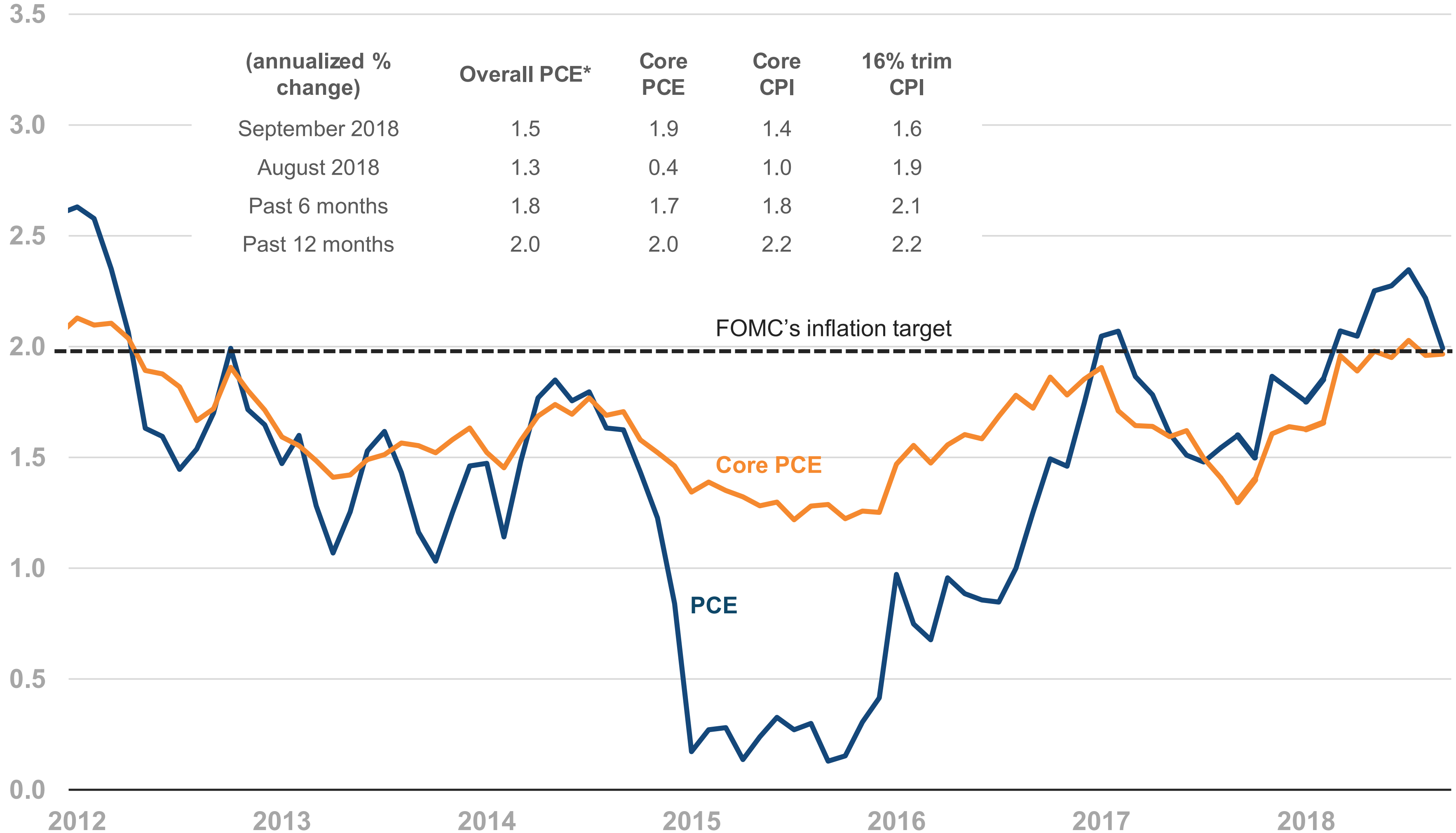


Recent inflation readings have been consistent the FOMC's 2% target.

PCE Price Index

year-over-year percent change, monthly

(annualized % change)	Overall PCE*	Core PCE	Core CPI	16% trim CPI
September 2018	1.5	1.9	1.4	1.6
August 2018	1.3	0.4	1.0	1.9
Past 6 months	1.8	1.7	1.8	2.1
Past 12 months	2.0	2.0	2.2	2.2

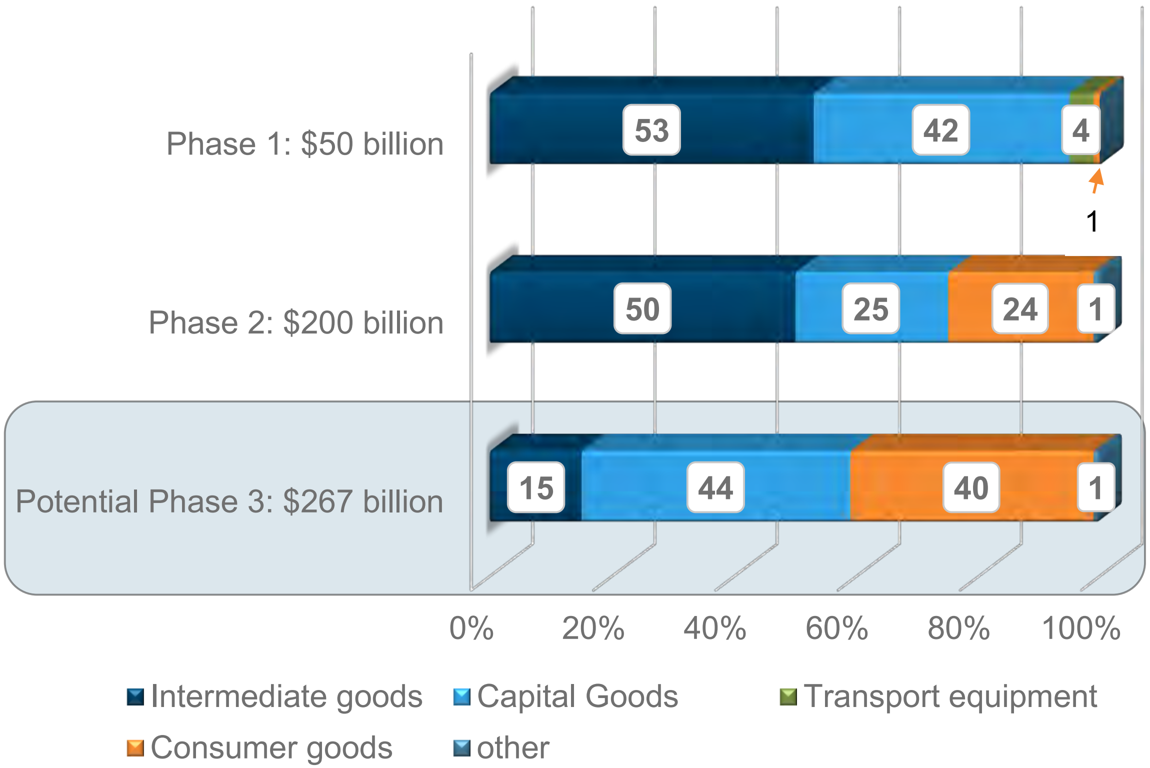


Sources: Bureau of Economic Analysis; Haver Analytics

data through September 2018

The latest round of tariffs on Chinese imports targeted a greater share of final consumer goods. A significant share of overall US imports of consumer goods such as furniture and electronics come from China.

Composition of US tariffs on Chinese imports



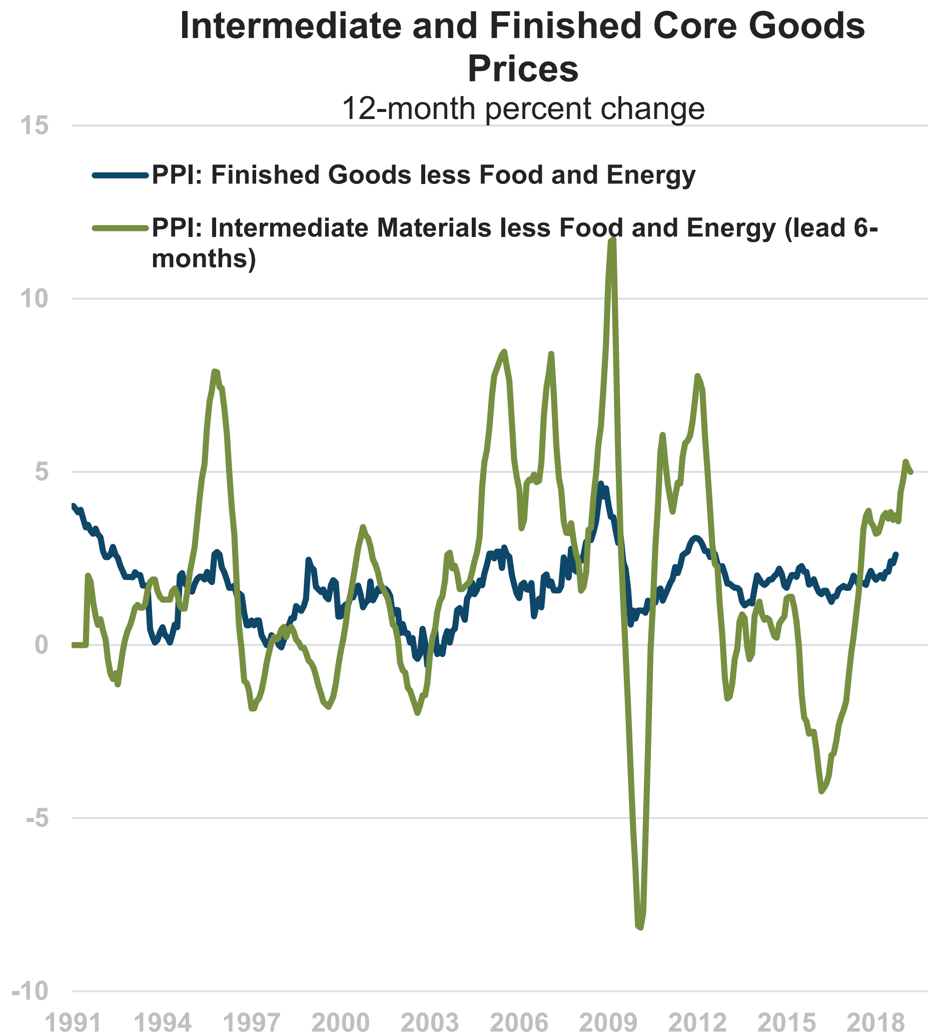
Source: Peterson Institute for International Economics (PIIE), International Trade Centre

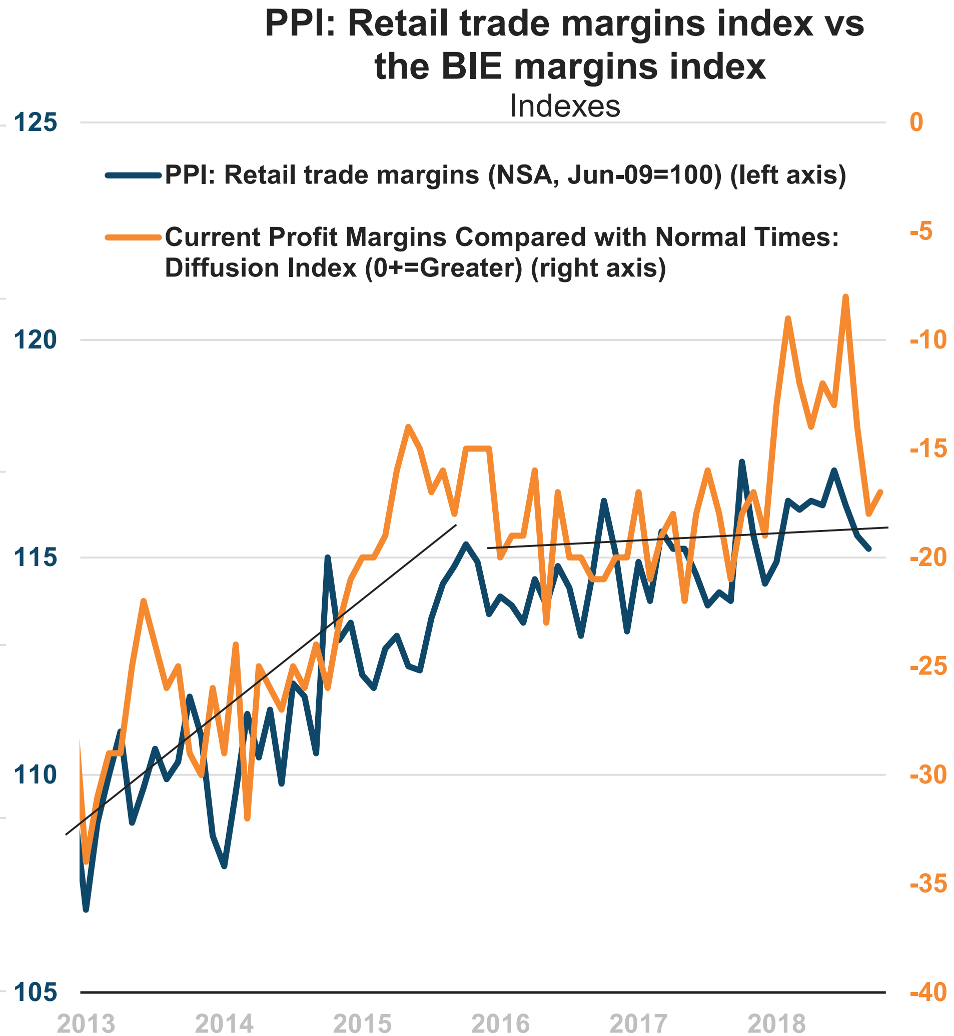
China's share of total US imports
(2017, share of customs value)

Total	**21.7**
Furniture & Fixtures	56.0
Textile Mill Products	54.2
Leather & Allied Products	53.5
Print Matter	50.7
Computer & Electronic Products	46.2
Elec Equip/Appliance/Component	39.4
Apparel & Accessories	34.9
Nonmetallic Mineral Products	34.3
Misc. Mfg Commodities	34.0
Fabricated Metal Products	32.9
Plastics & Rubber Products	32.8

Source: Census Bureau, staff calculations

One potential implication of recent tariffs is that they could push up costs. The key question here is whether firms still have room to squeeze margins before passing on these prices to the final consumer. Margins have improved since early in the recovery, but the pace of that improvement appears to have stalled out.





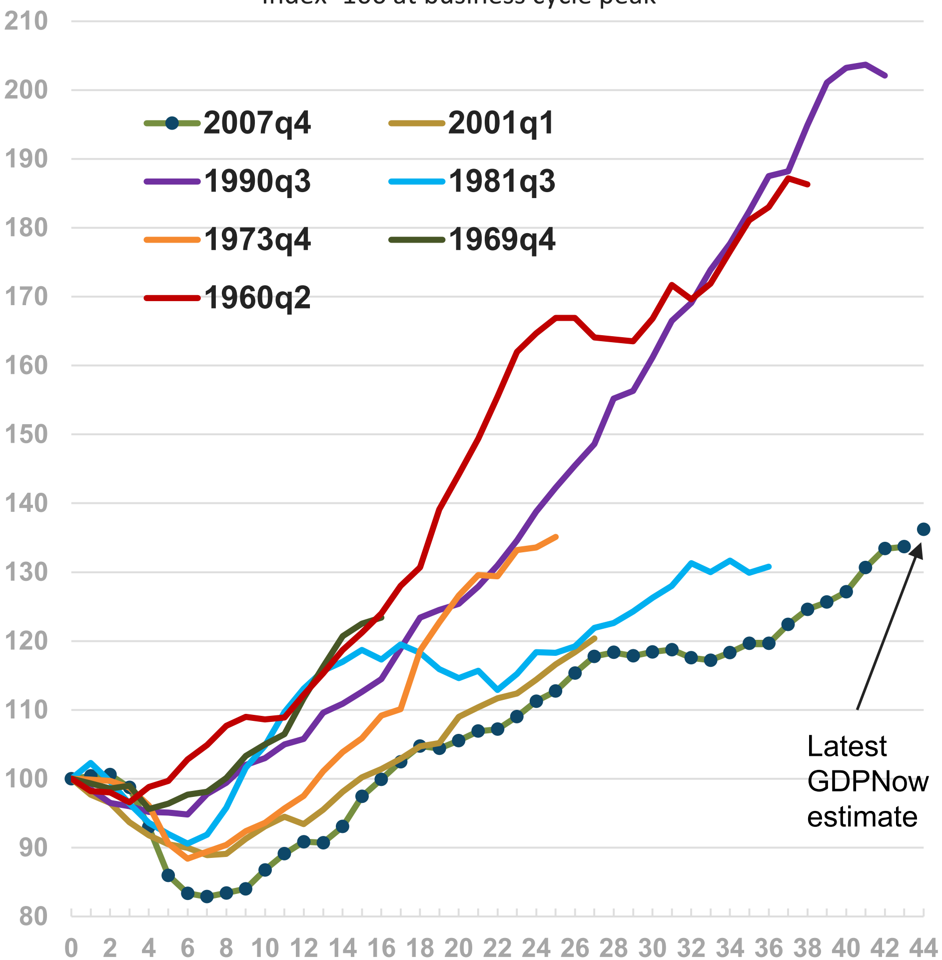
Sources: Federal Reserve Bank of Atlanta, *Business Inflation Expectations Survey;* Bureau of Labor Statistics; Producer Price Index program staff, "Wholesale and retail Producer Price Indexes: margin prices," *Beyond the Numbers: Prices & Spending*, vol. 1, no. 8 (U.S. Bureau of Labor Statistics, August 2012)

BLS data thru Sept. 2018; FRBA data thru Oct.2018

43 quarters after the onset of the 2007-09 recession, we are now in the longest post-war peak-to-peak business cycle on record. However, the current cycle also been the slowest, especially for business investment and household consumption growth.

Business Fixed Investment: Business Cycle Graph

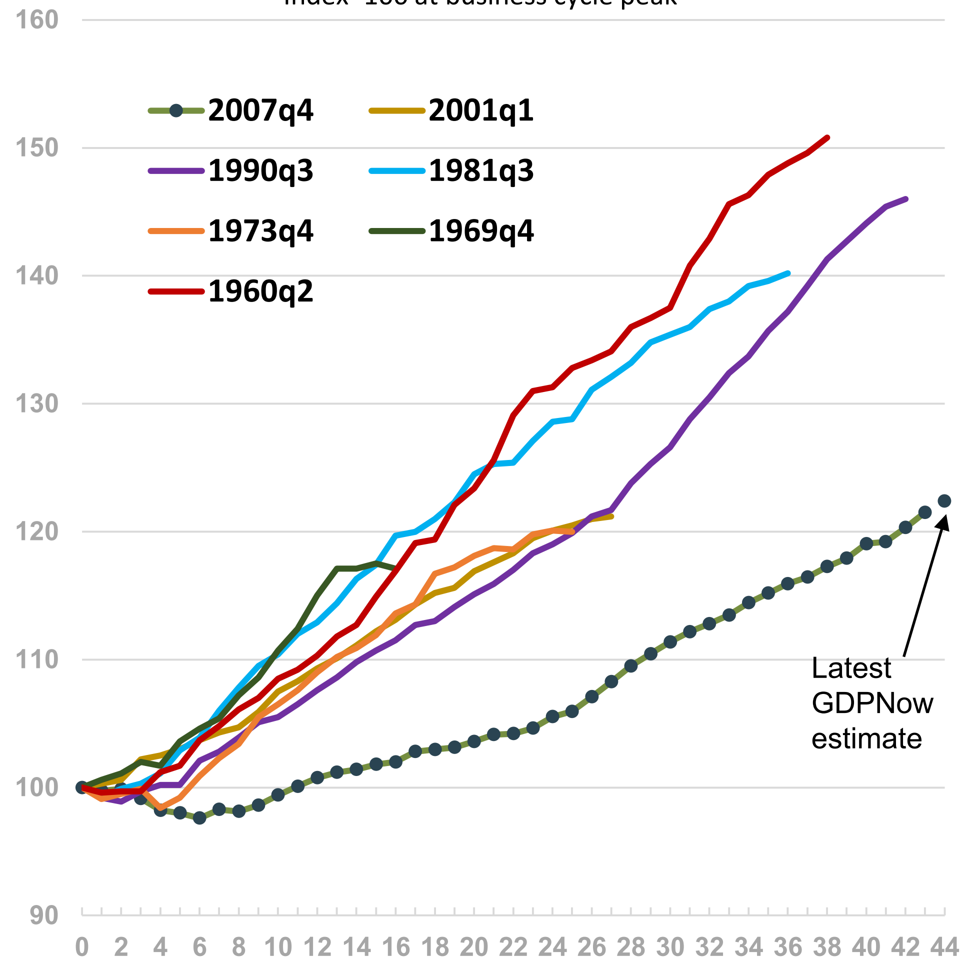
Index=100 at business cycle peak



Note: Business cycles (length of line is equal to the number of quarters between "peaks")

Real Personal Consumption Expenditures: Business Cycle Graph

Index=100 at business cycle peak

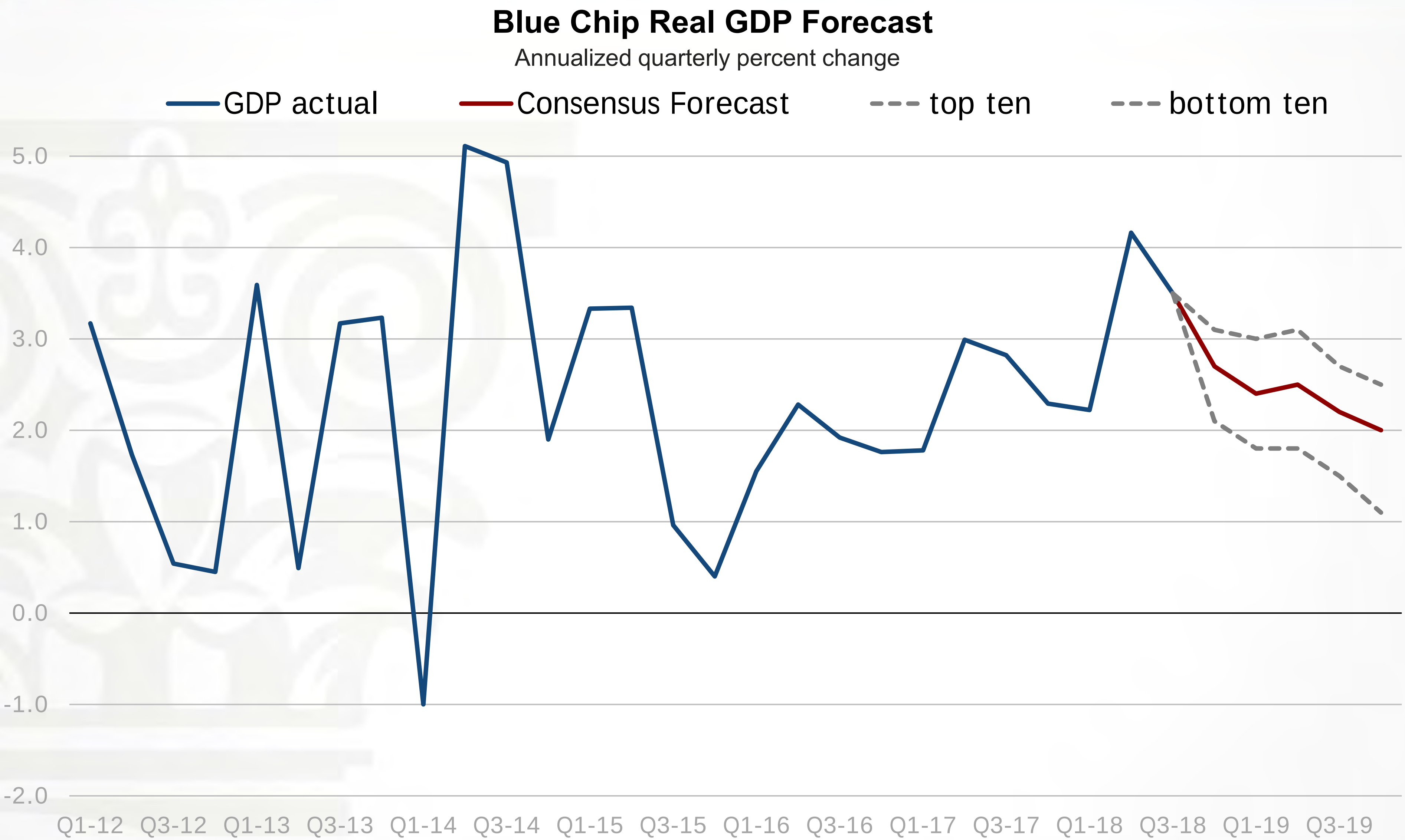


Note: Business cycles (length of line is equal to the number of quarters between "peaks")

Source: Bureau of Economic Analysis, FRBA staff calculations; Haver Analytics

data through Q3-2018

With respect to the outlook for the economy going forward, private economists expect GDP to gradually return to a more modest rate of growth, following above-trend growth in 2018.



Source: Blue Chip panel of economists, November 10, 2018

What we're hearing anecdotally from Tennessee business contacts:

On balance, Tennessee businesses contacts are optimistic about the growth of activity next year, though there is a rising sense of caution about the out-years.

Specifically:

- Firms that derive most of their sales domestically are generally more optimistic than those dependent on foreign demand.
- Travel and tourism activity remains a bright spot.
- Housing affordability is an increasing concern for employers.
- Many businesses have reported success passing rising input prices on to their customers. There remain questions about how much more prices can increase without dampening consumer demand.
- Employment trends continue to suggest that the economy is very near its maximum employment capacity– though trends continue to vary by geography, industry, and job type.

Tennessee State Funding Board

November 20, 2018

Laurel Graefe
Regional Executive - Tennessee

Tennessee Economic Outlook
and
Revenue Forecast - 2018

EAST TENNESSEE STATE
UNIVERSITY

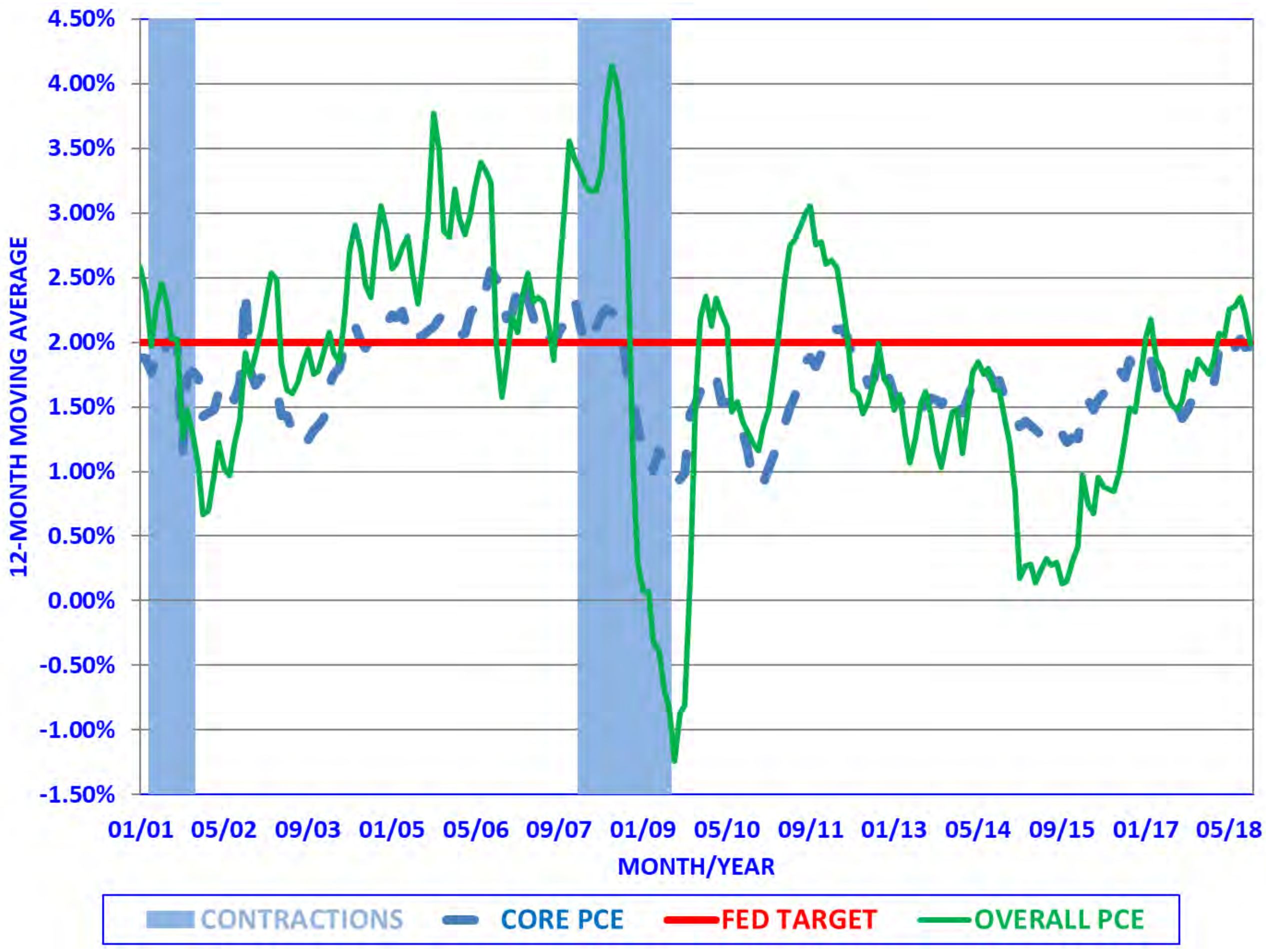
Jon L. Smith, Director
Bureau of Business and Economic Research

W. Fred Mackara, Department of Economics and Finance

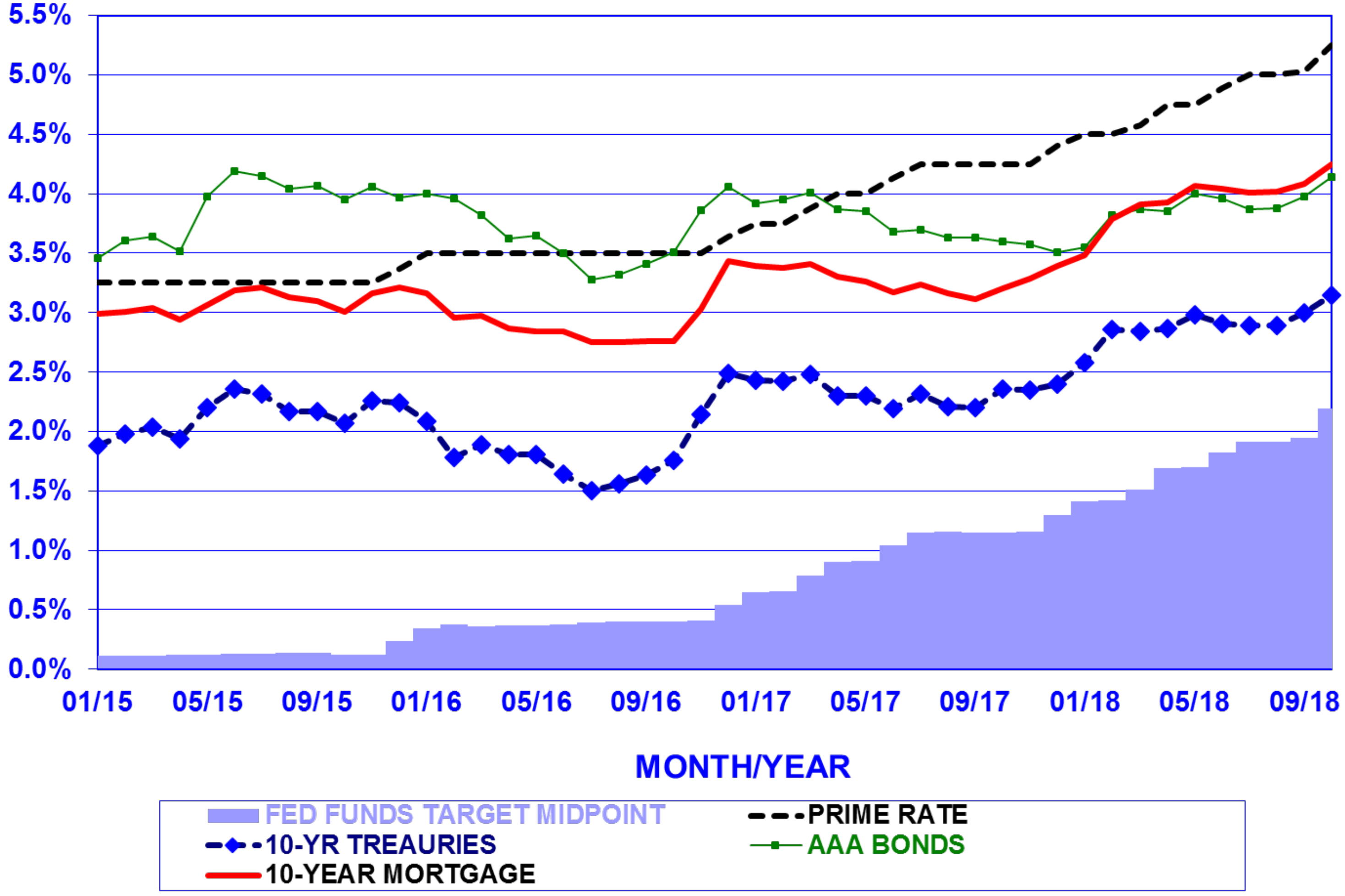
Joseph Newhard, Assistant Professor
Department of Economics and Finance

National the Economy

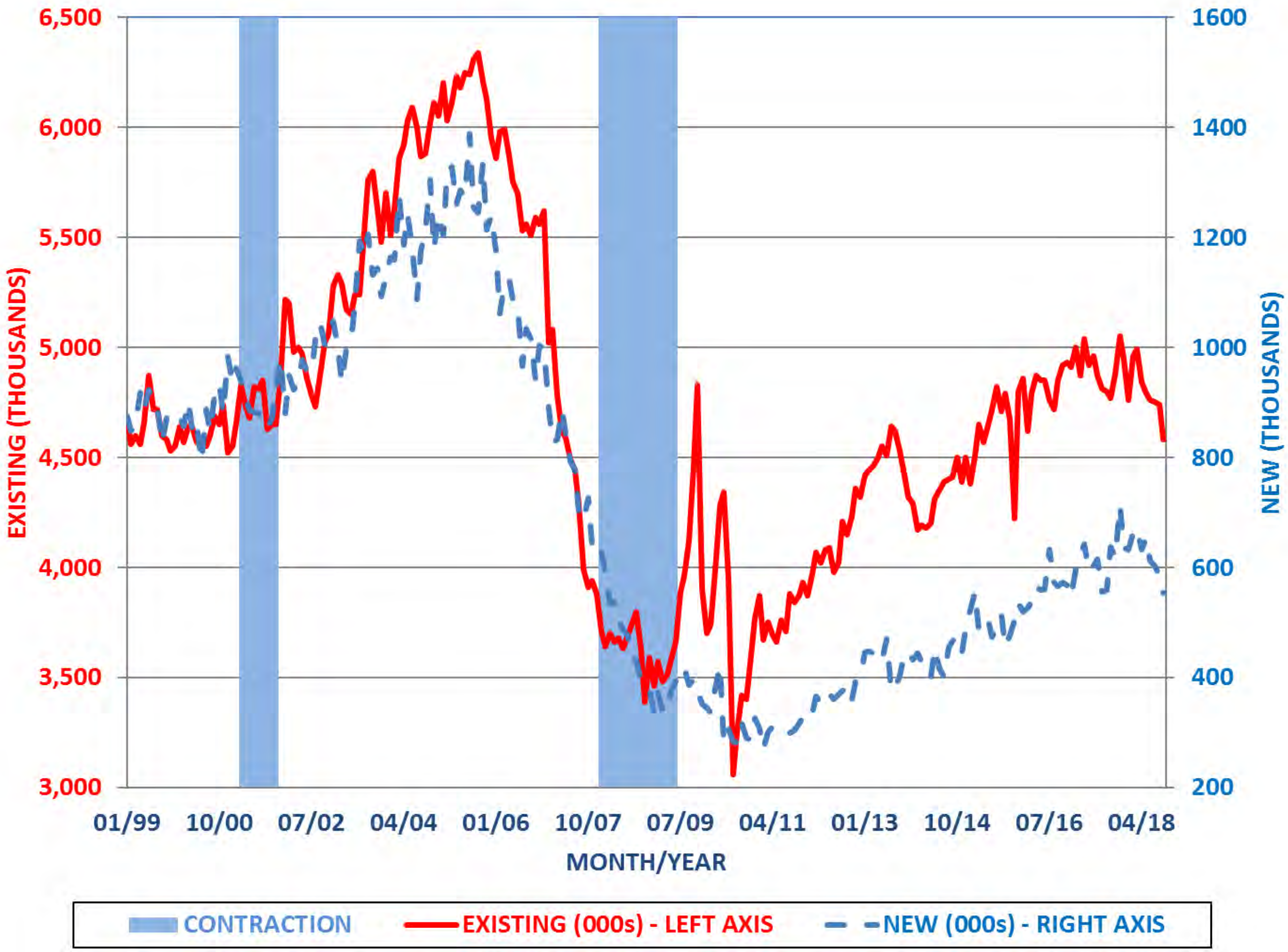
ACTUAL vs. FED TARGET INFLATION
(LAST MONTH PLOTTED, 9/18)



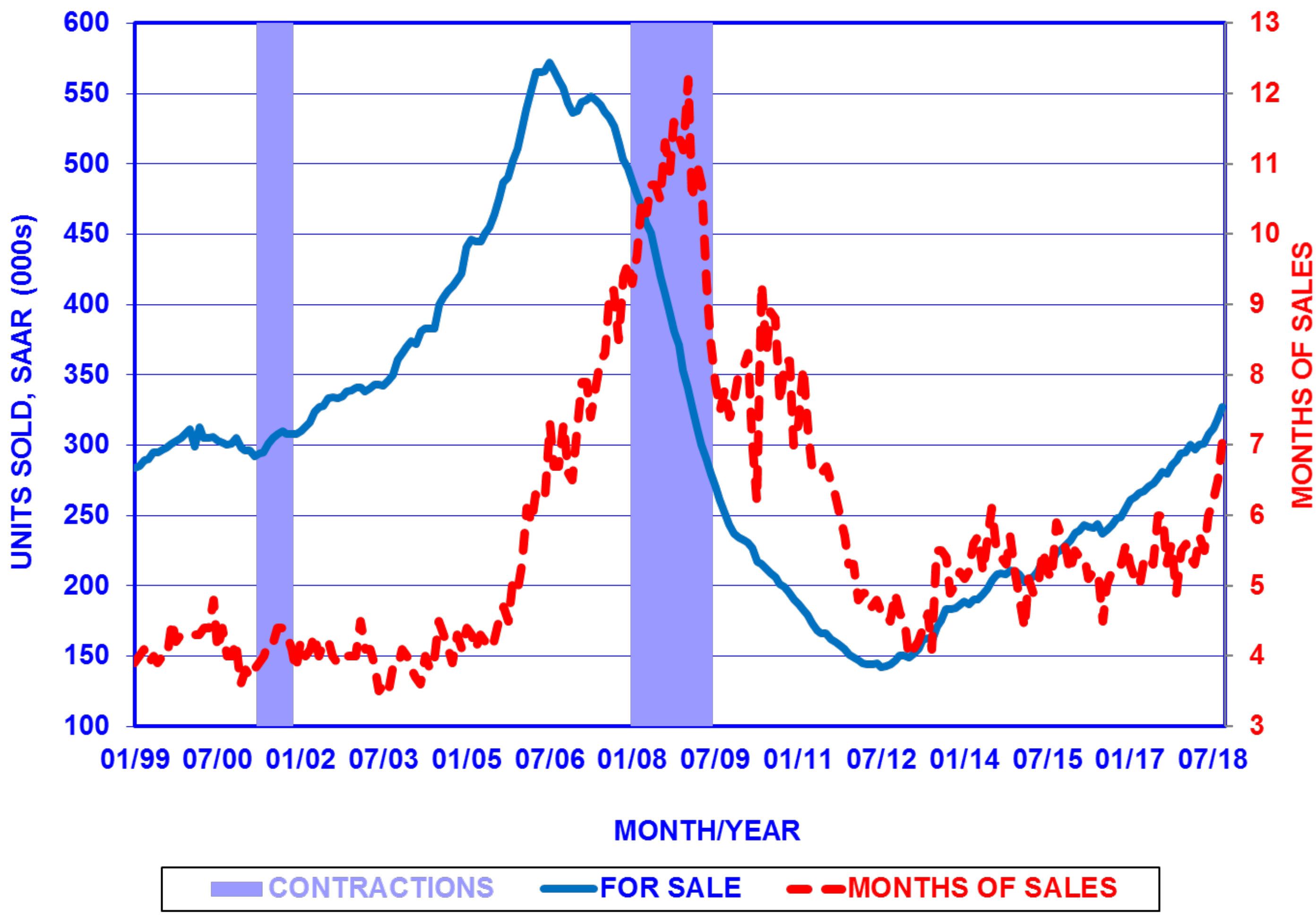
INTEREST RATES & YIELDS
(LAST MONTH PLOTTED, 10/18)



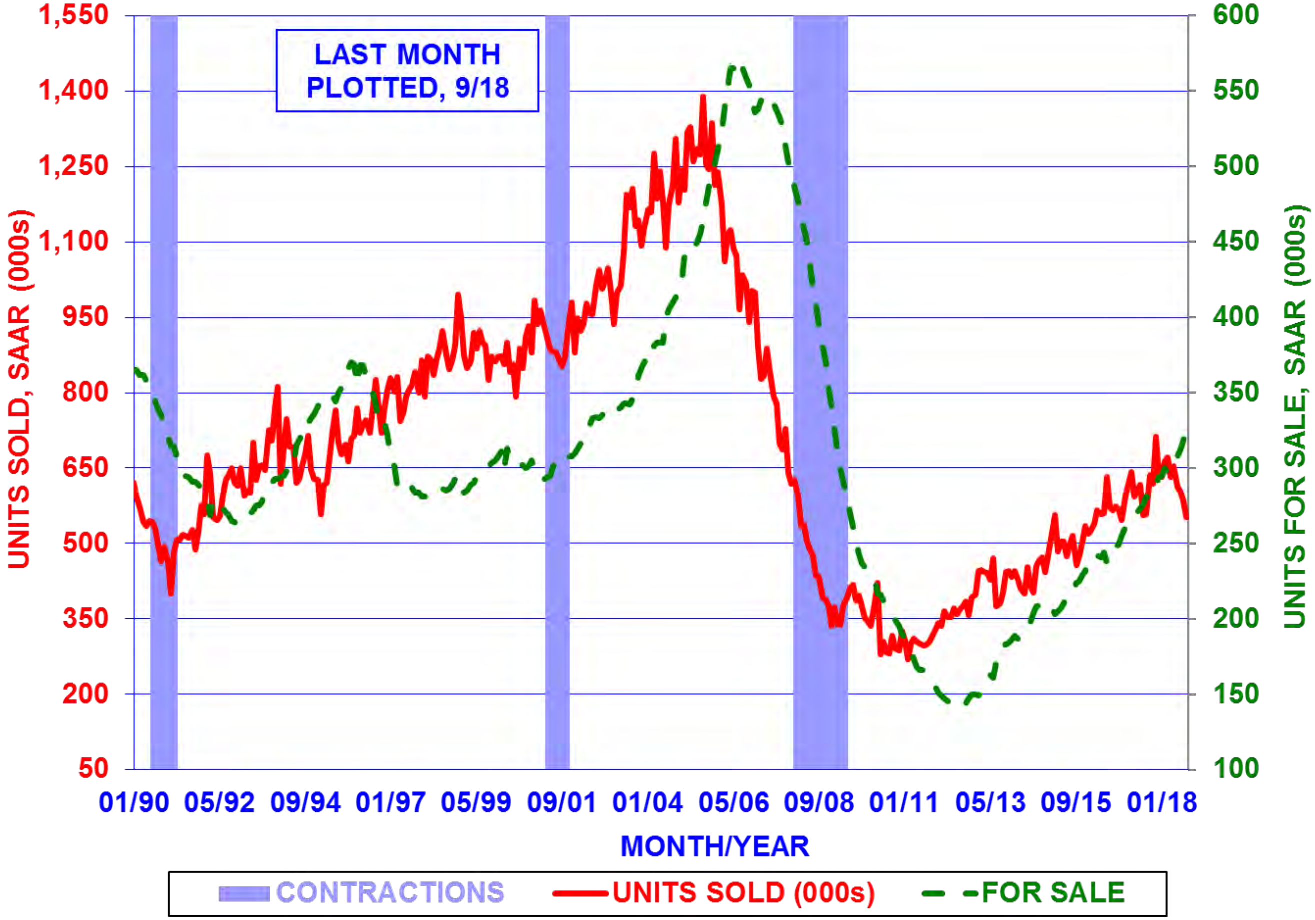
NEW & EXISTING HOME SALES, SAAR
(LAST MONTH PLOTTED, 09/18)



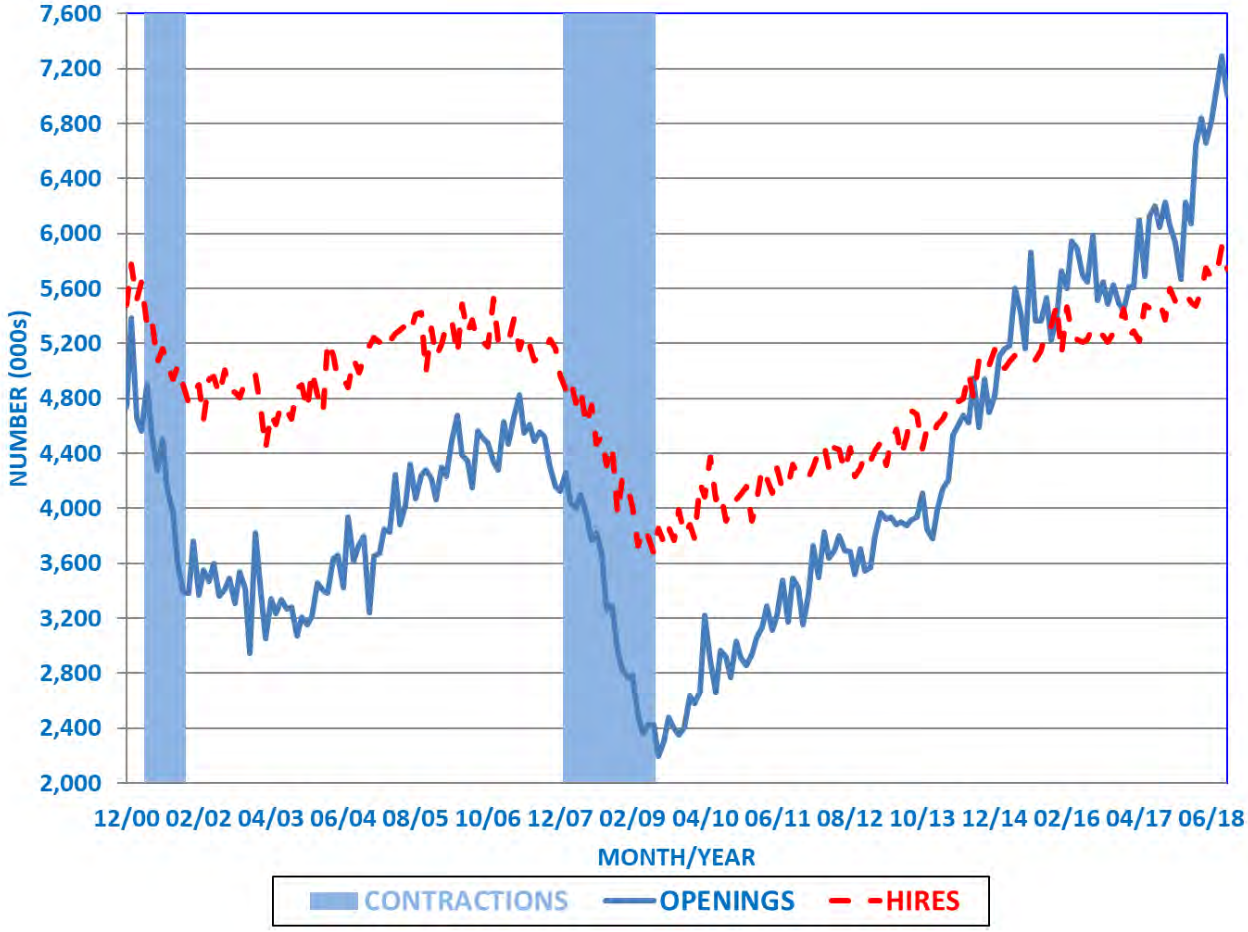
INVENTORY OF NEW HOMES FOR SALE
(LAST MONTH PLOTTED, 9/18)



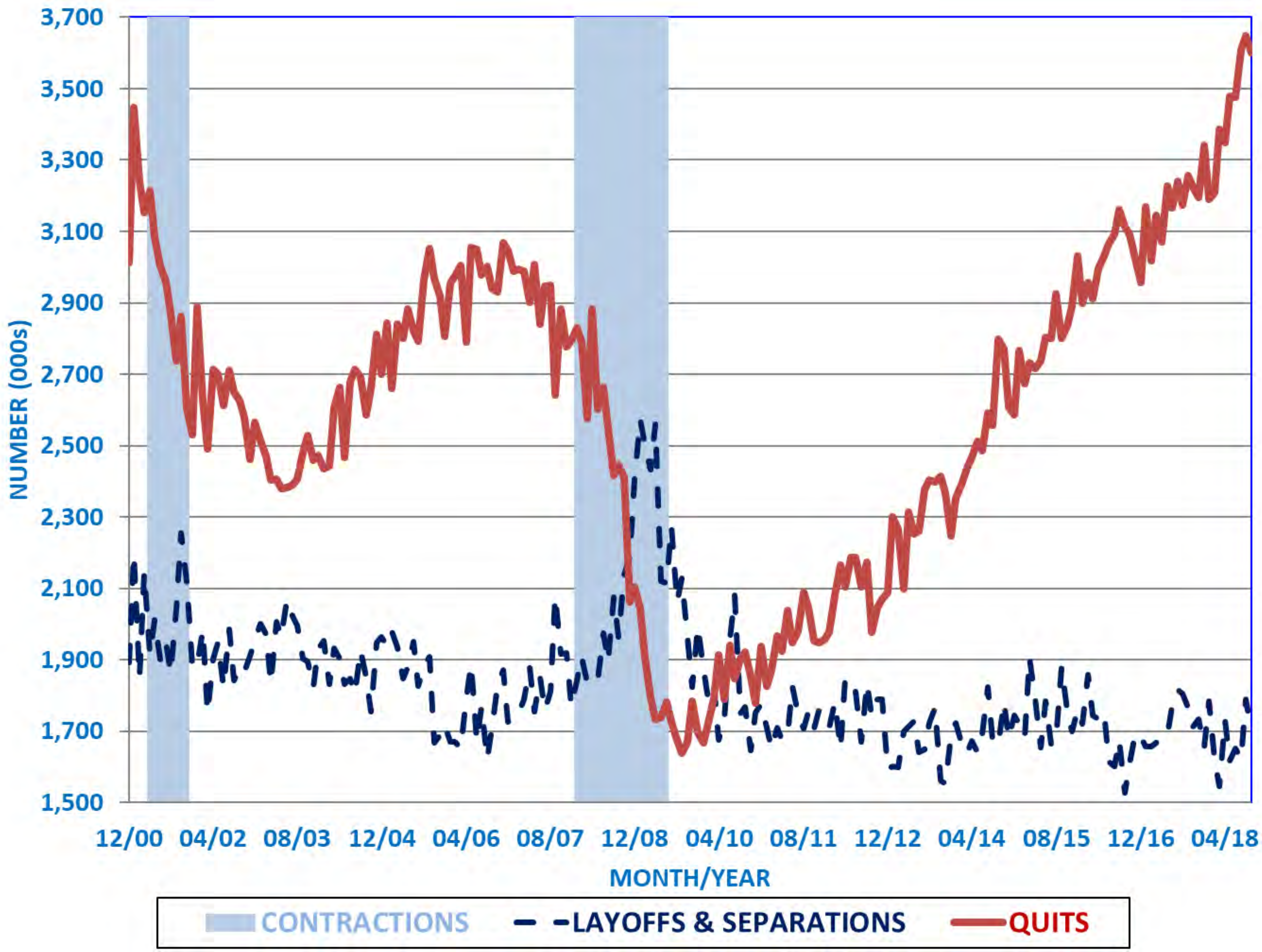
NEW HOME SALES vs. NEW HOMES FOR SALE
(LAST MONTH PLOTTED, 9/18)



JOB OPENINGS vs. HIRES
(J.O.L.T.S., 9/18)



LAYOFFS vs. QUITS
(J.O.L.T.S., 9/18)



NFIB SMALL BUSINESS OPTIMISM INDEX
SEPTEMBER 2018

- “87% of [Survey Respondents] who were hiring or trying to hire workers reported few or no qualified applicants for the positions they were trying to fill”

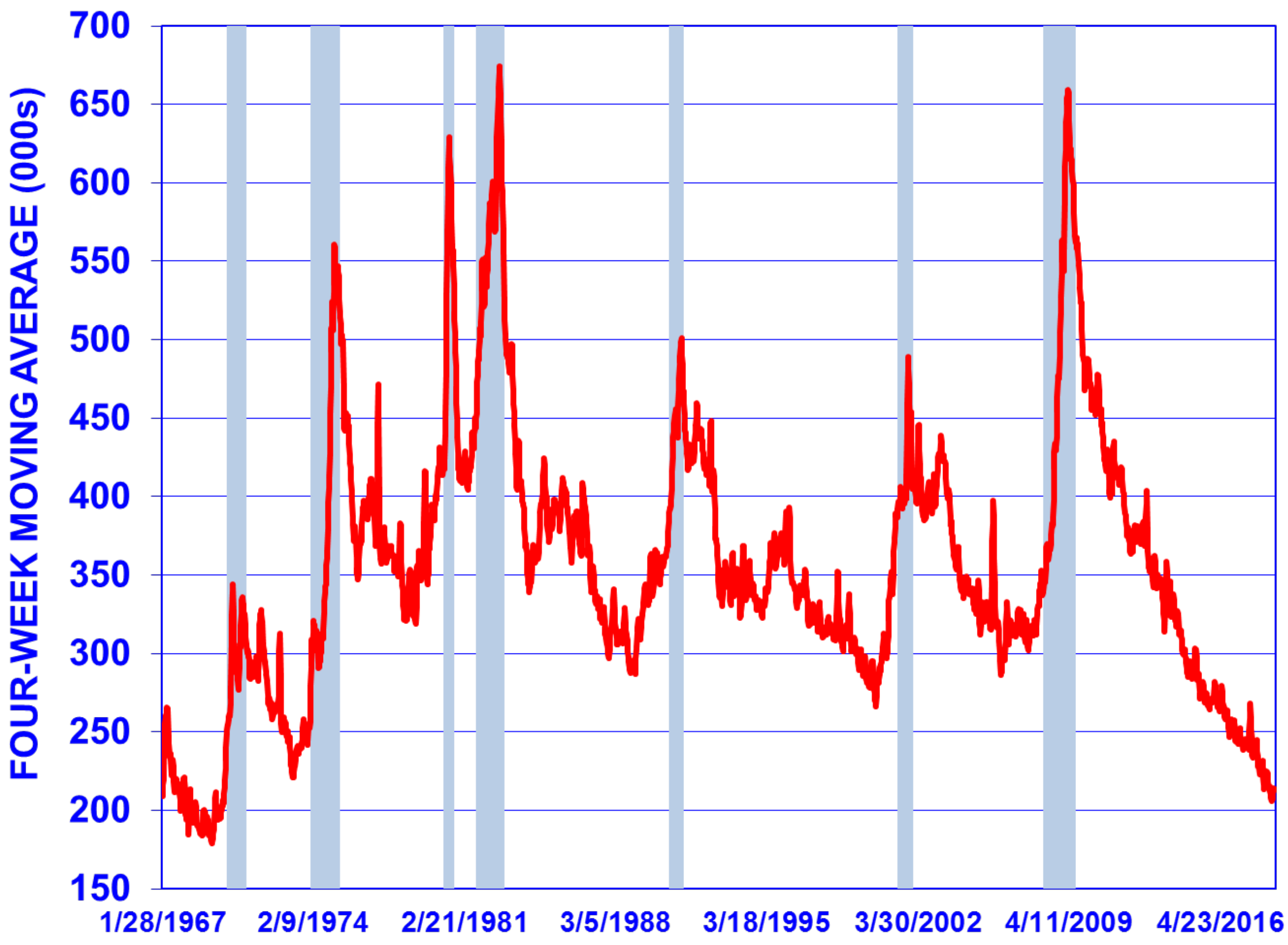
“Single Most Important Problem Facing Small Businesses”

#1 Quality of Labor

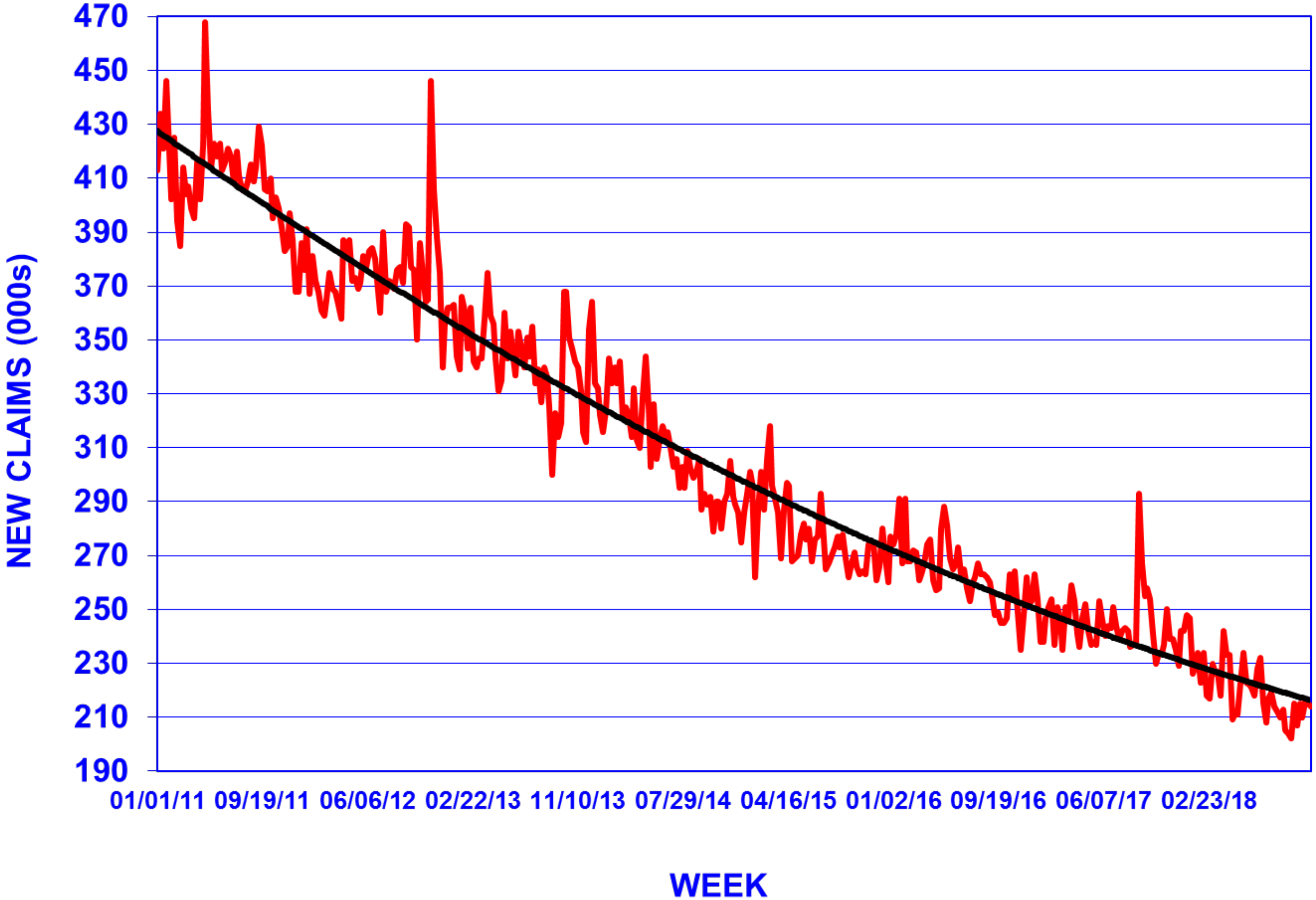
#2 Taxes

#3 Government Regulations & Red Tape

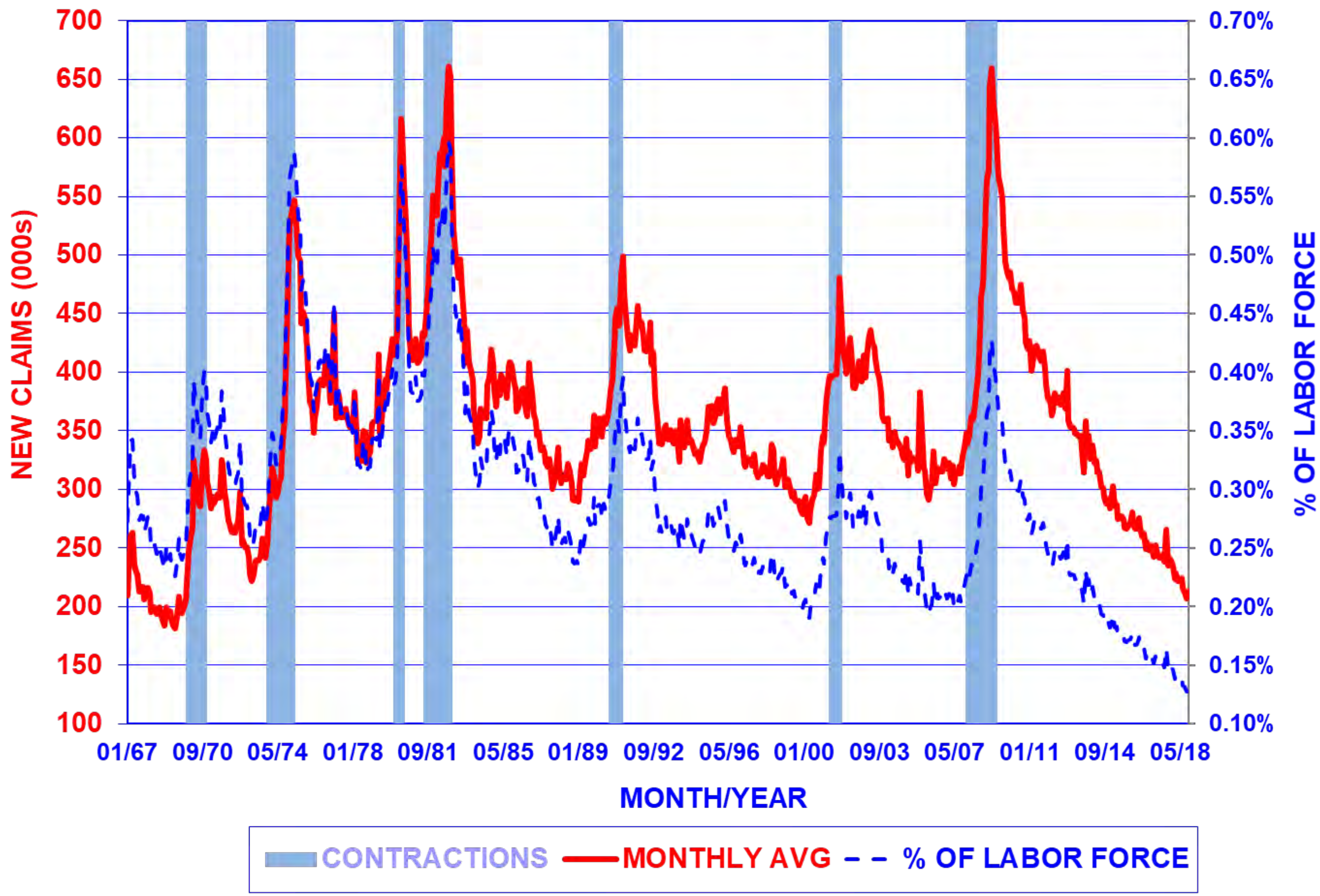
WEEKLY NEW CLAIMS FOR UNEMPLOYMENT BENEFITS
(LAST WEEK PLOTTED, 11/3/18)



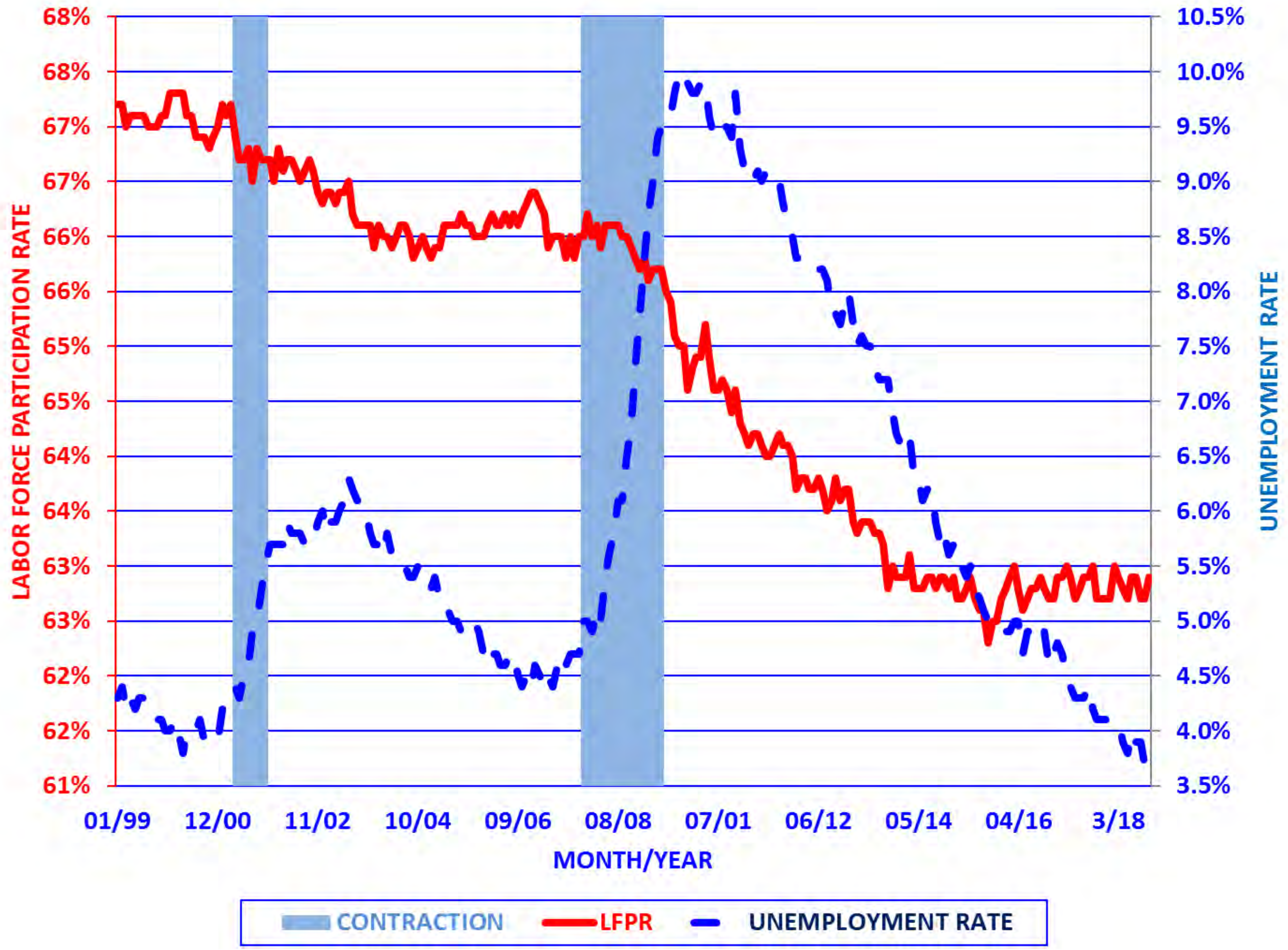
WEEKLY NEW CLAIMS TREND
(LAST WEEK PLOTTED, 11/3/18)



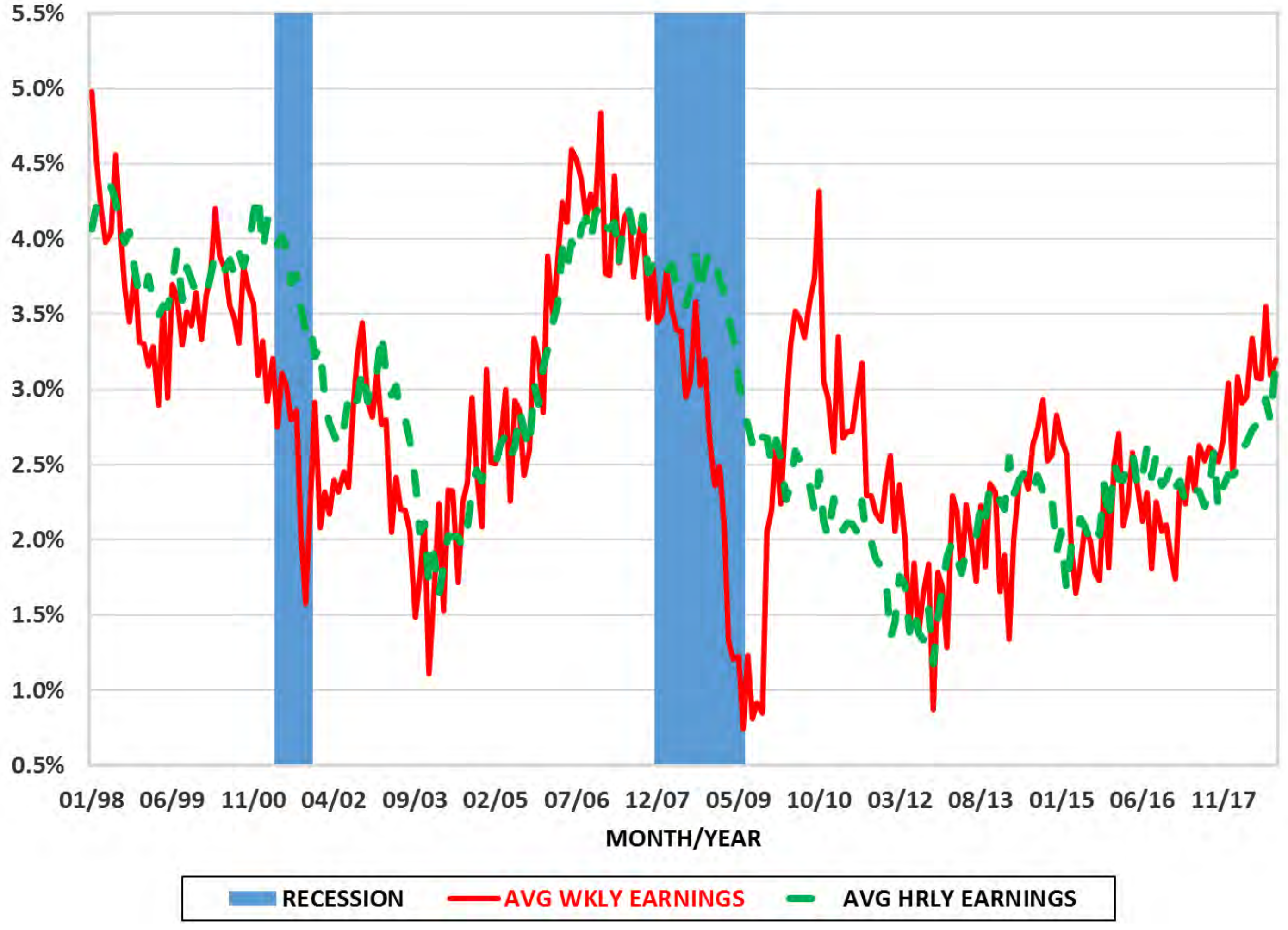
NEW CLAIMS FOR UNEMPLOYMENT BENEFITS AS PERCENT OF LABOR FORCE
(LAST MONTH PLOTTED, 10/18)



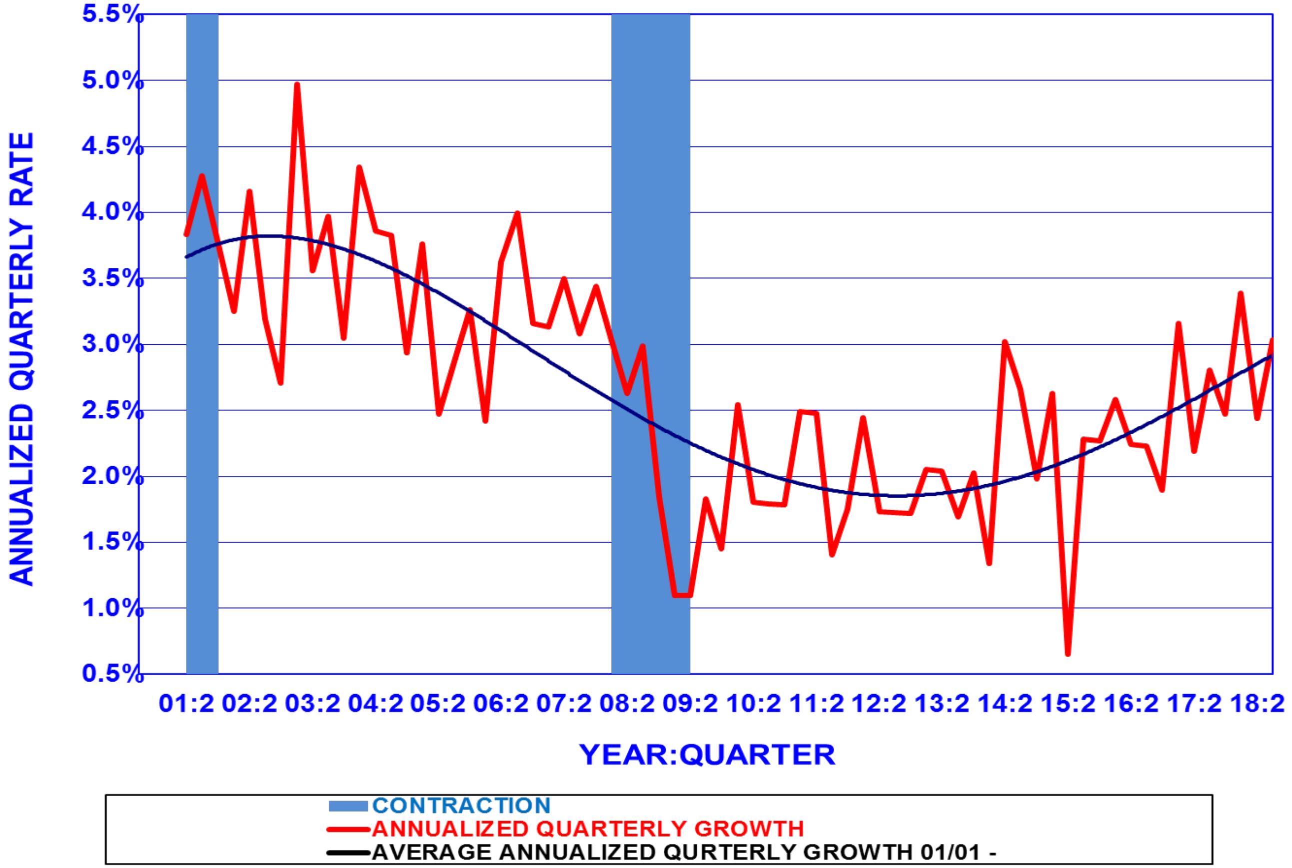
LABOR FORCE PARTICIPATION RATE (LFPR) & UNEMPLOYMENT RATE (LAST MONTH PLOTTED, 10/18)



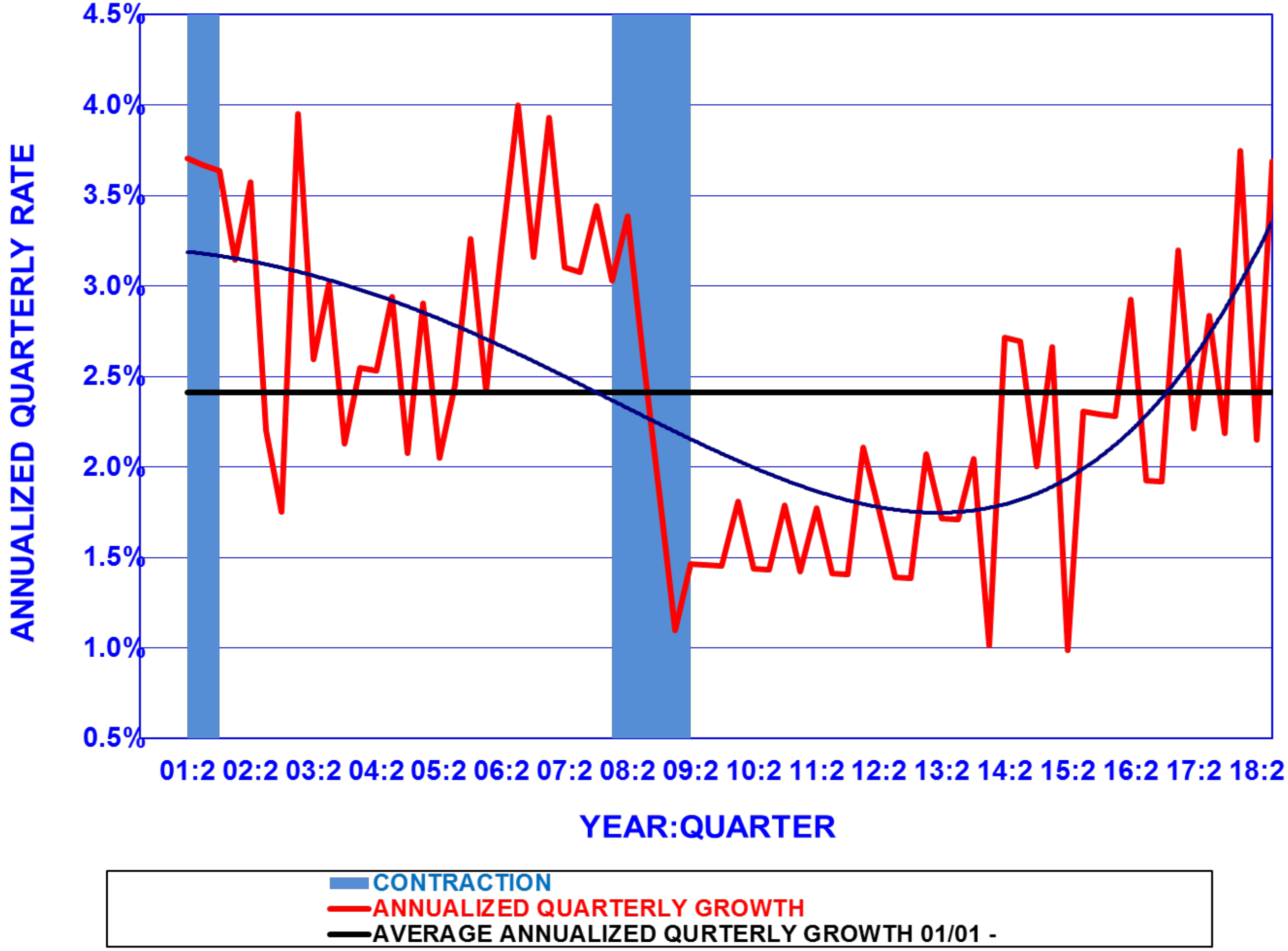
ANNUALIZED MONTHLY GROWTH
AVG. WEEKLY & HOURLY EARNINGS OF NON-SUPERVISORY PRODUCTION WORKERS
(LAST MONTH PLOTTED, 10/18)



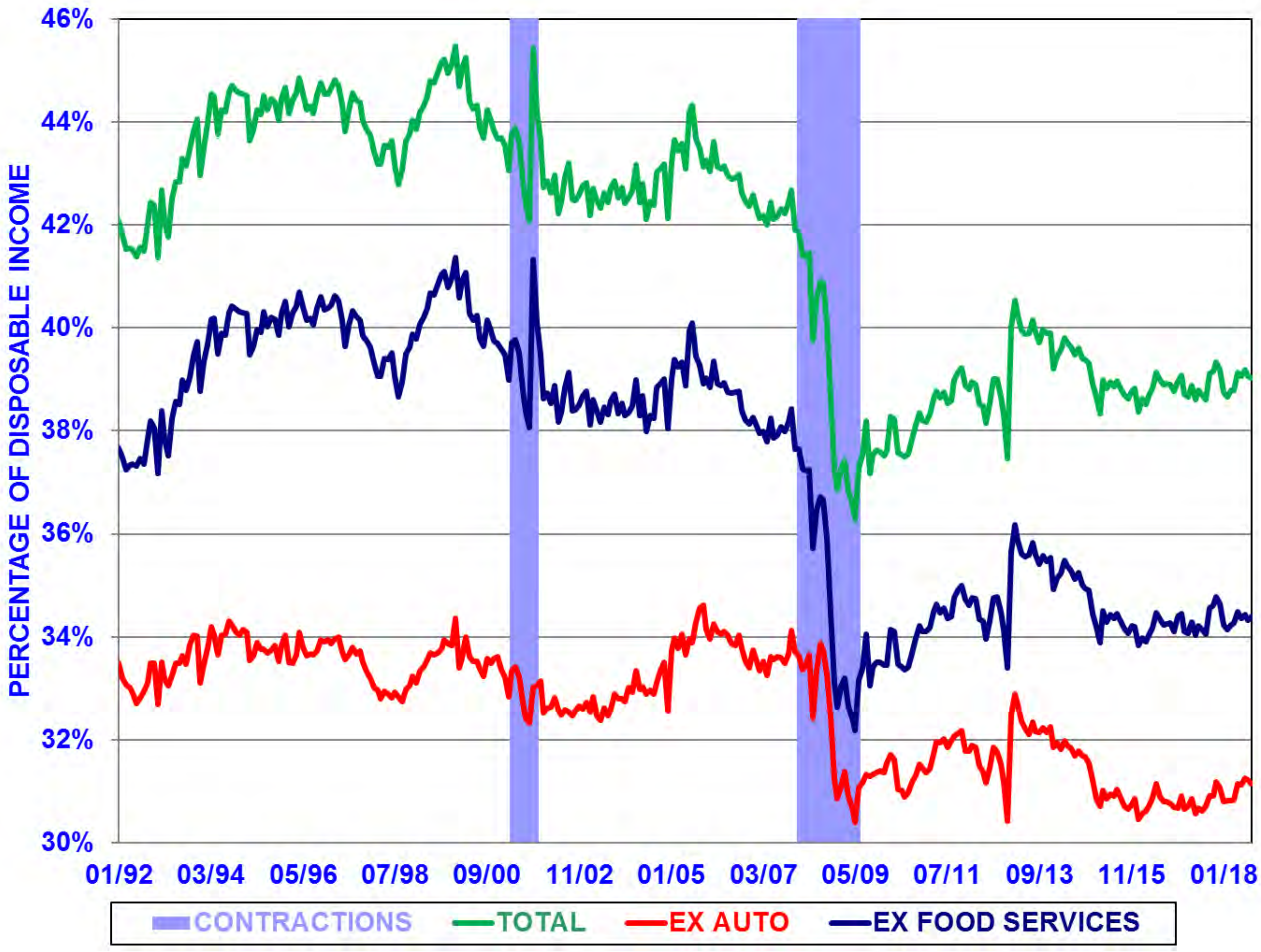
EMPLOYMENT COST INDEX:
TOTAL COMPENSATION GROWTH
ALL CIVILIAN WORKERS
(LAST MONTH PLOTTED, 2018:Q3)



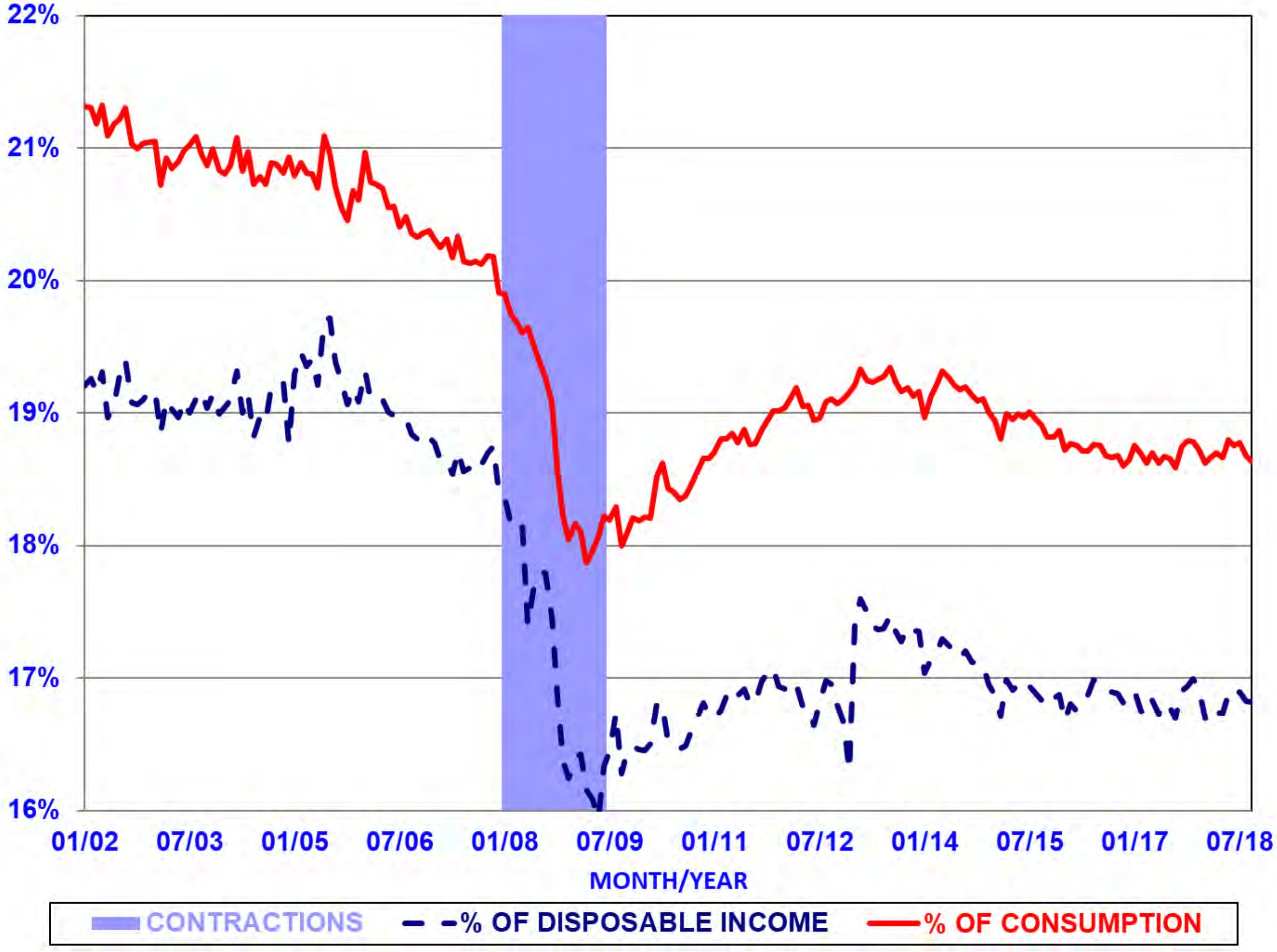
EMPLOYMENT COST INDEX: WAGES & SALARY GROWTH
ALL CIVILIAN WORKERS
(LAST MONTH PLOTTED, 2018:Q3)



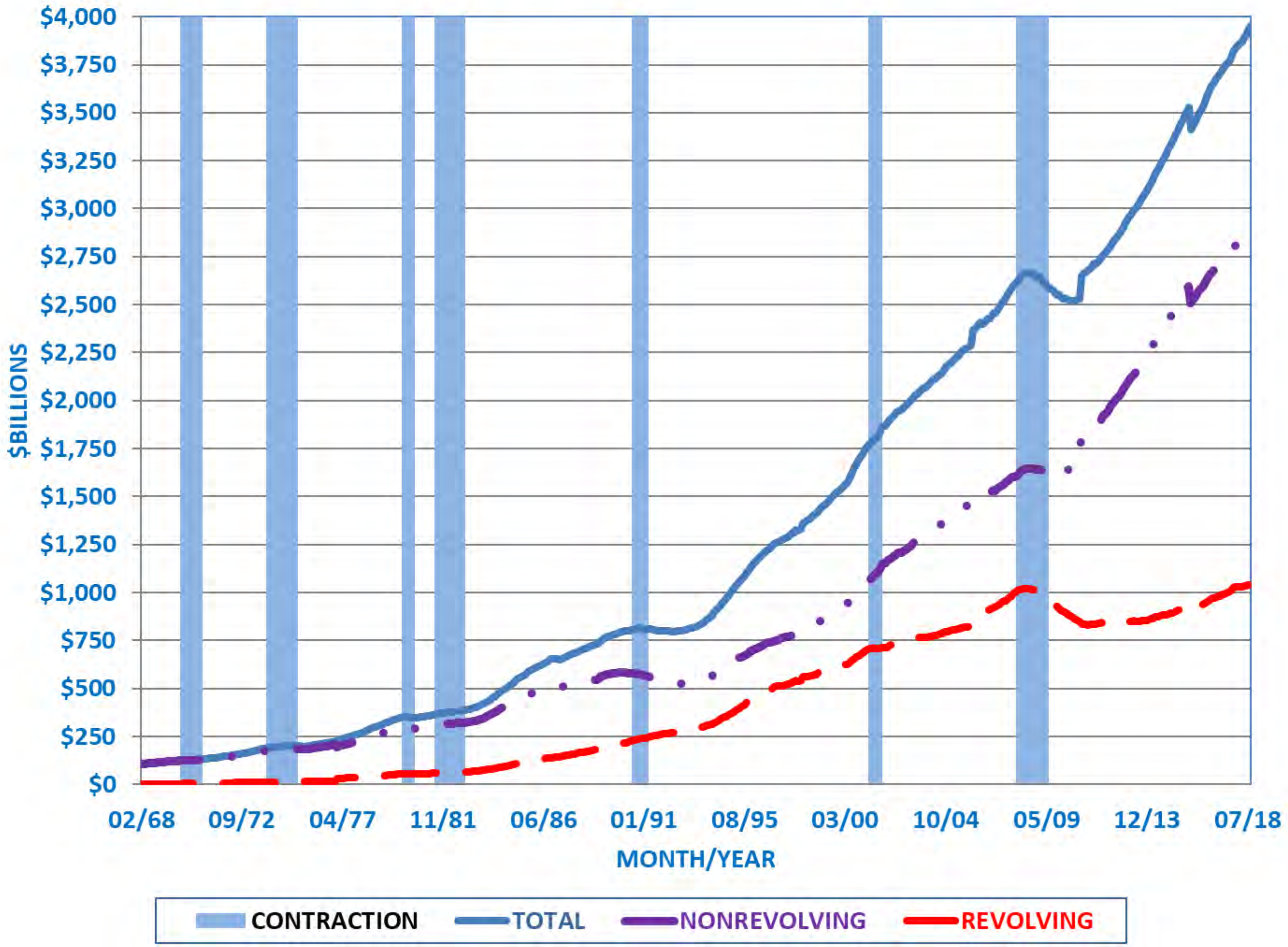
RETAIL SALES AS PERCENTAGE OF DISPOSABLE INCOME
(LAST MONTH PLOTTED, 9/18)



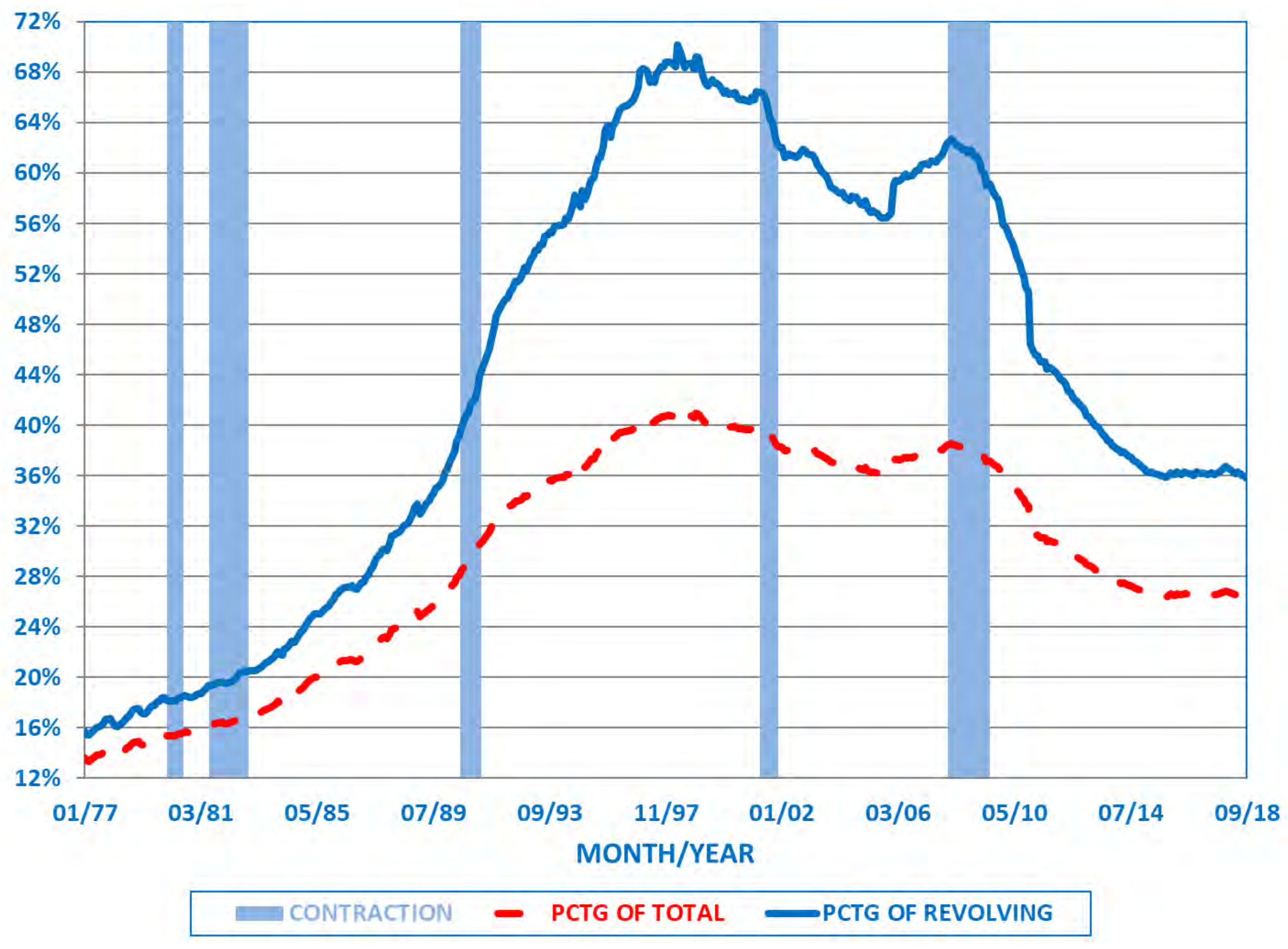
INFLATION-ADJUSTED RETAIL SALES AS PERCENTAGE OF DISPOSABLE INCOME & PERSONAL CONSUMPTION
(LAST MONTH PLOTTED, 9/18)



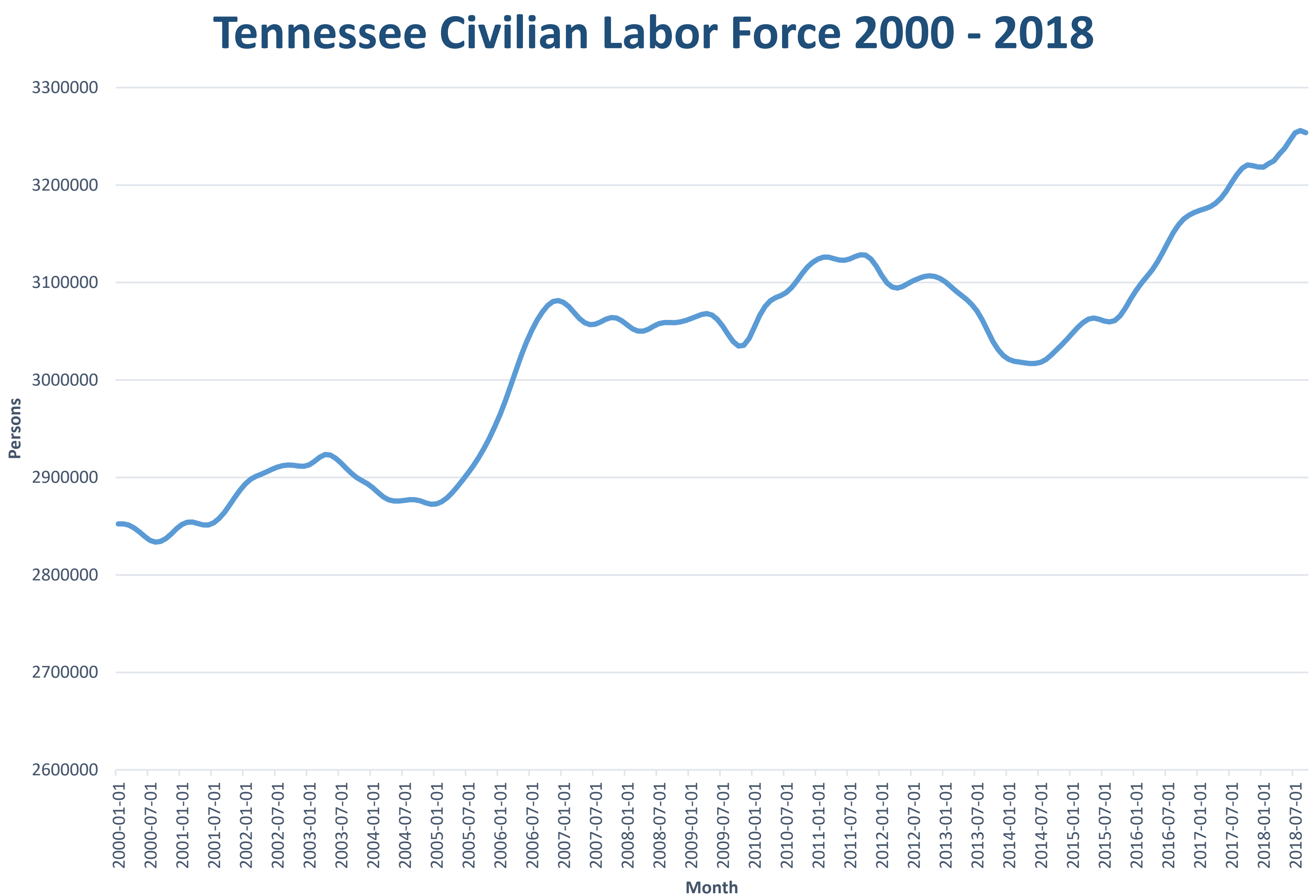
CONSUMER CREDIT – TOTAL OUTSTANDING
(LAST MONTH PLOTTED, 9/18)



CONSUMER CREDIT: PERCENT REVOLVING
(LAST MONTH PLOTTED, 9/18)



Tennessee State
and
Metro Economy



Tennessee Civilian Labor Force 2000 - 2018
3300000
3200000
3100000
3000000
2900000
2800000
2700000
2600000
Persons
2000-01-01
2000-07-01
2001-01-01
2001-07-01
2002-01-01
2002-07-01
2003-01-01
2003-07-01
2004-01-01
2004-07-01
2005-01-01
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2014-01-01
2014-07-01
2015-01-01
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2016-01-01
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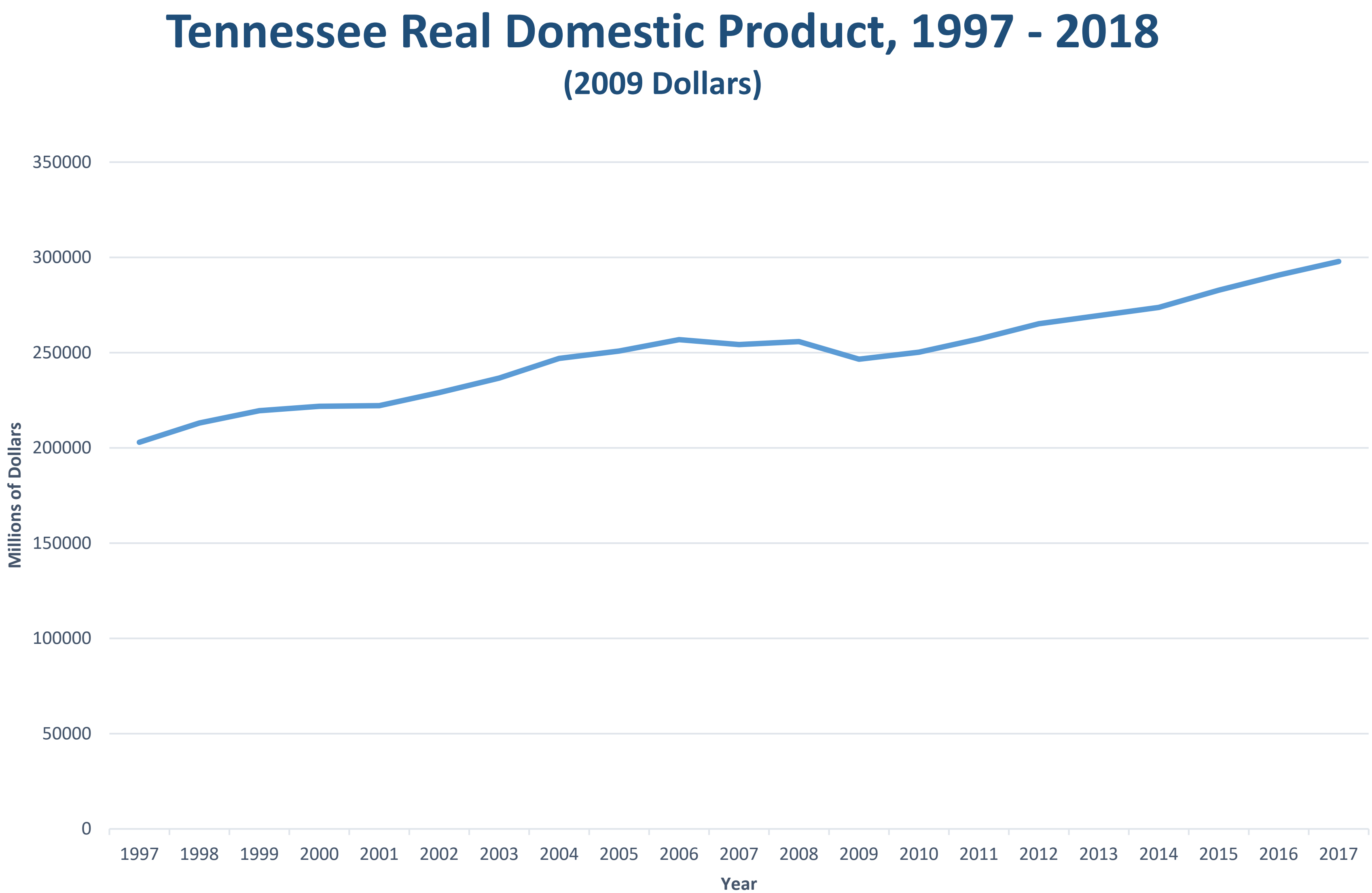
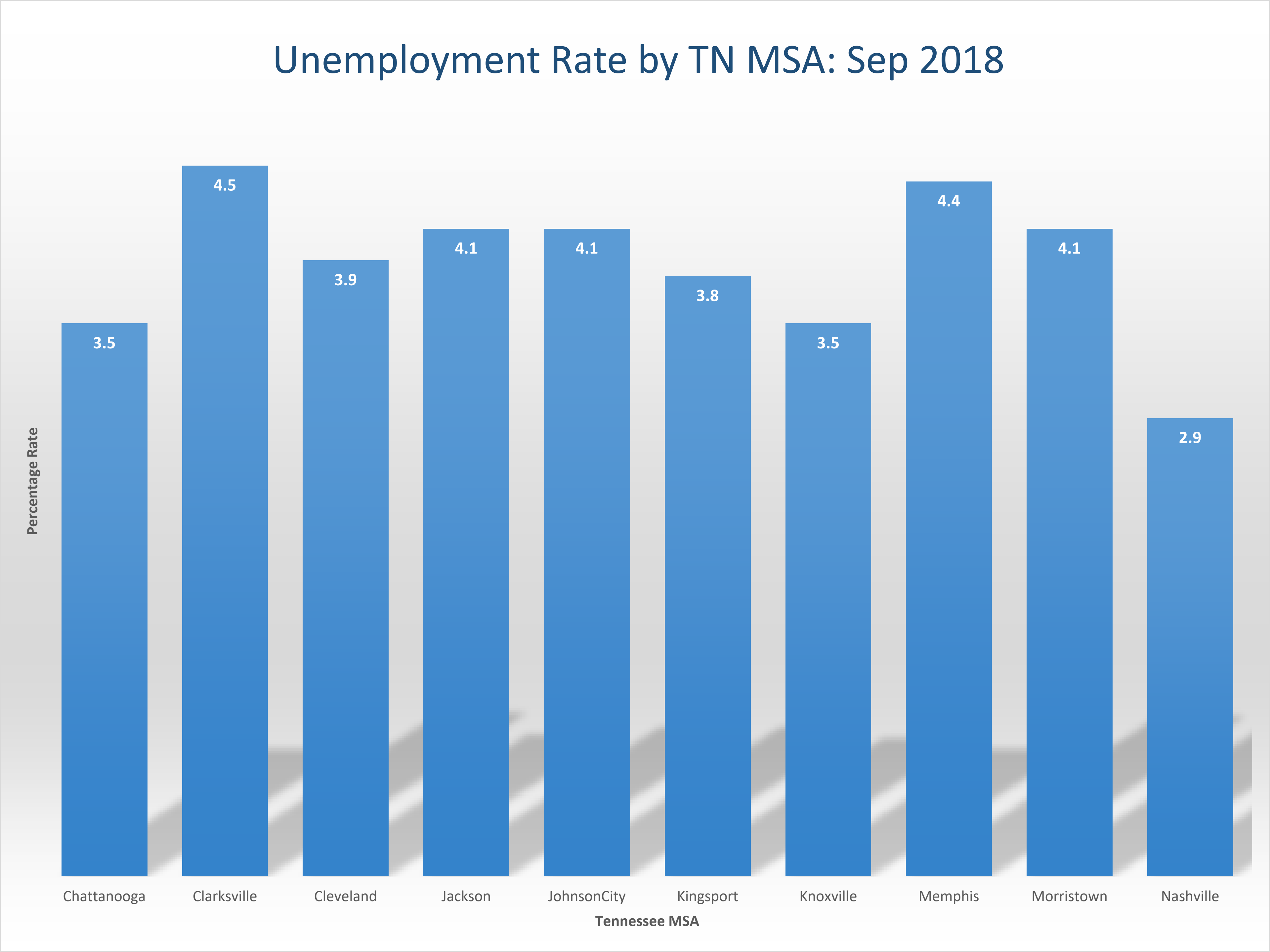
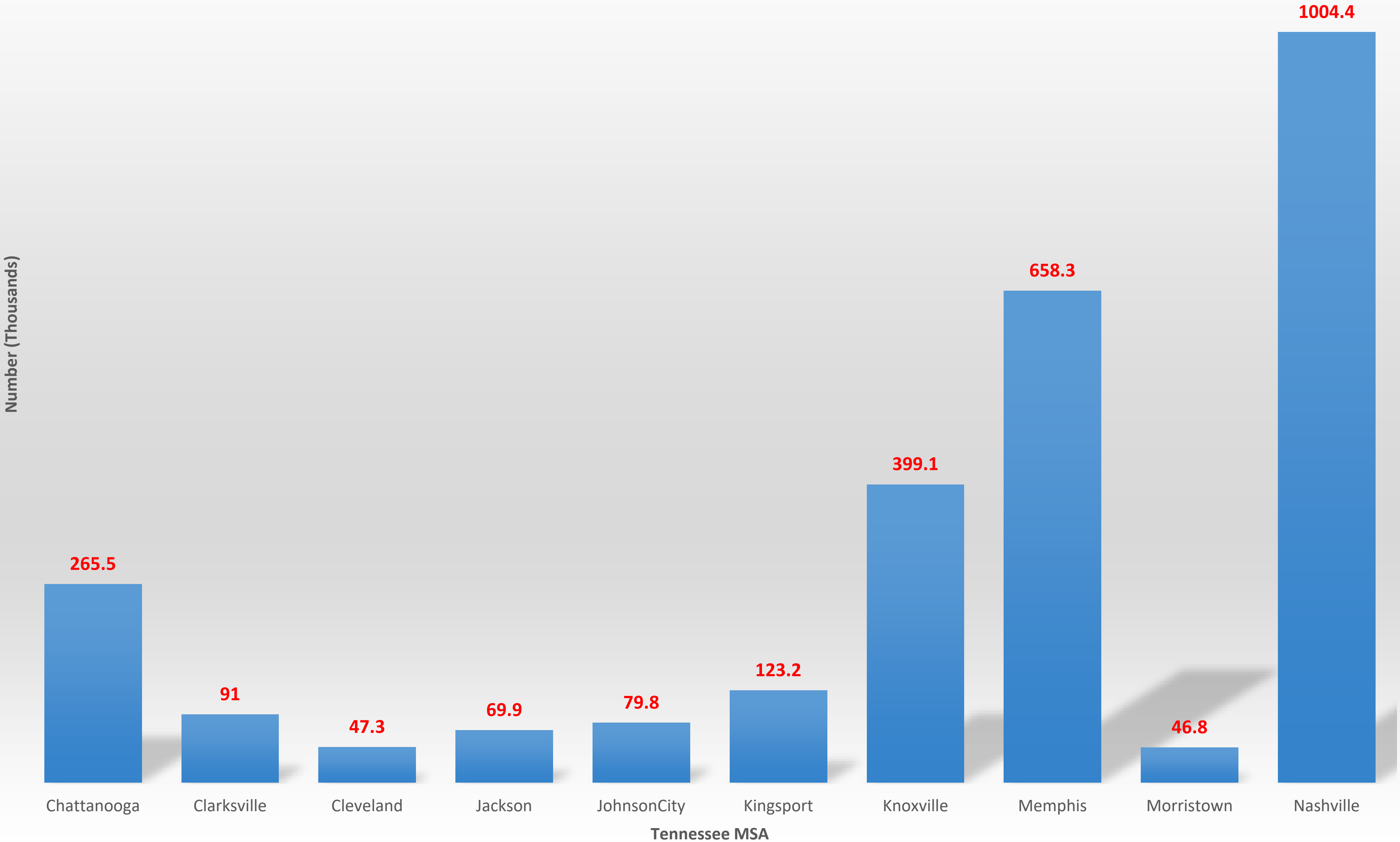
2017-01-01
2017-07-01
2018-01-01
2018-07-01
Month

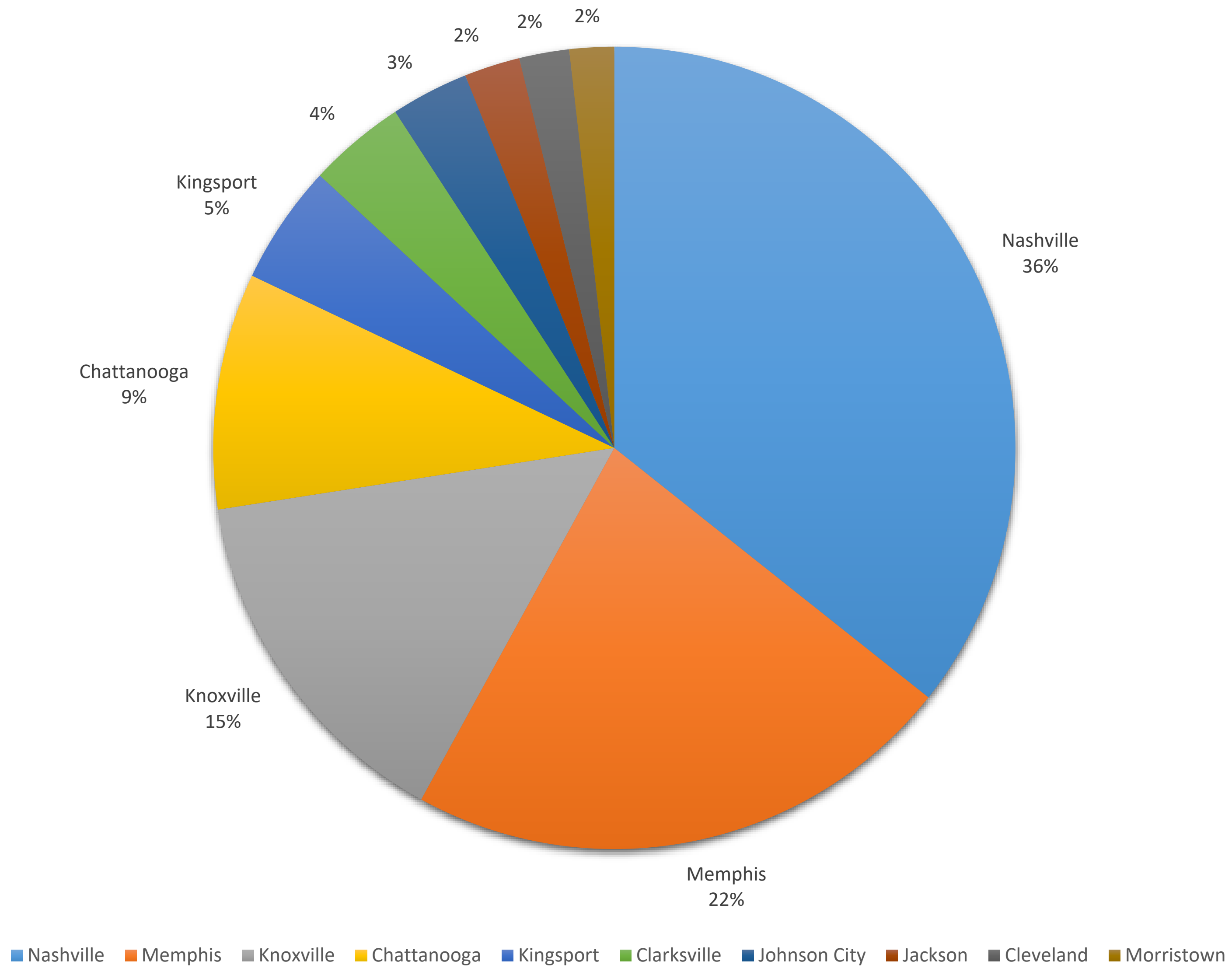

Tennessee Real Domestic Product, 1997 - 2018
(2009 Dollars)
Millions of Dollars
350000
300000
250000
200000
150000
100000
50000
0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Year

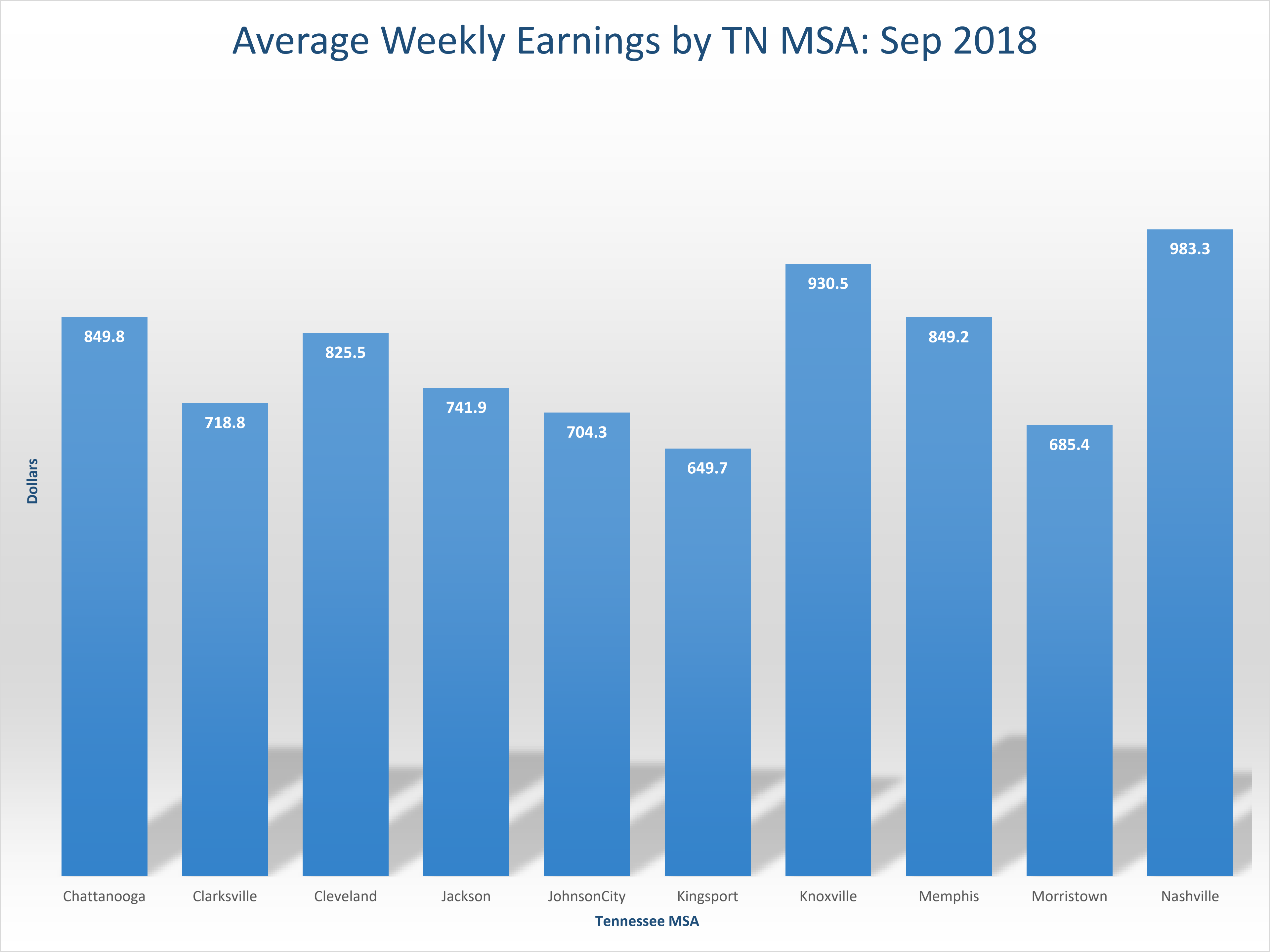

Unemployment Rate by TN MSA: Sep 2018
Percentage Rate
3.5
4.5
3.9
4.1
4.1
3.8
3.5
4.4
4.1
2.9
Chattanooga
Clarksville
Cleveland
Jackson
JohnsonCity
Kingsport
Knoxville
Memphis
Morristown
Nashville
Tennessee MSA

Total Nonfarm Employees by TN MSA: Sep 2018

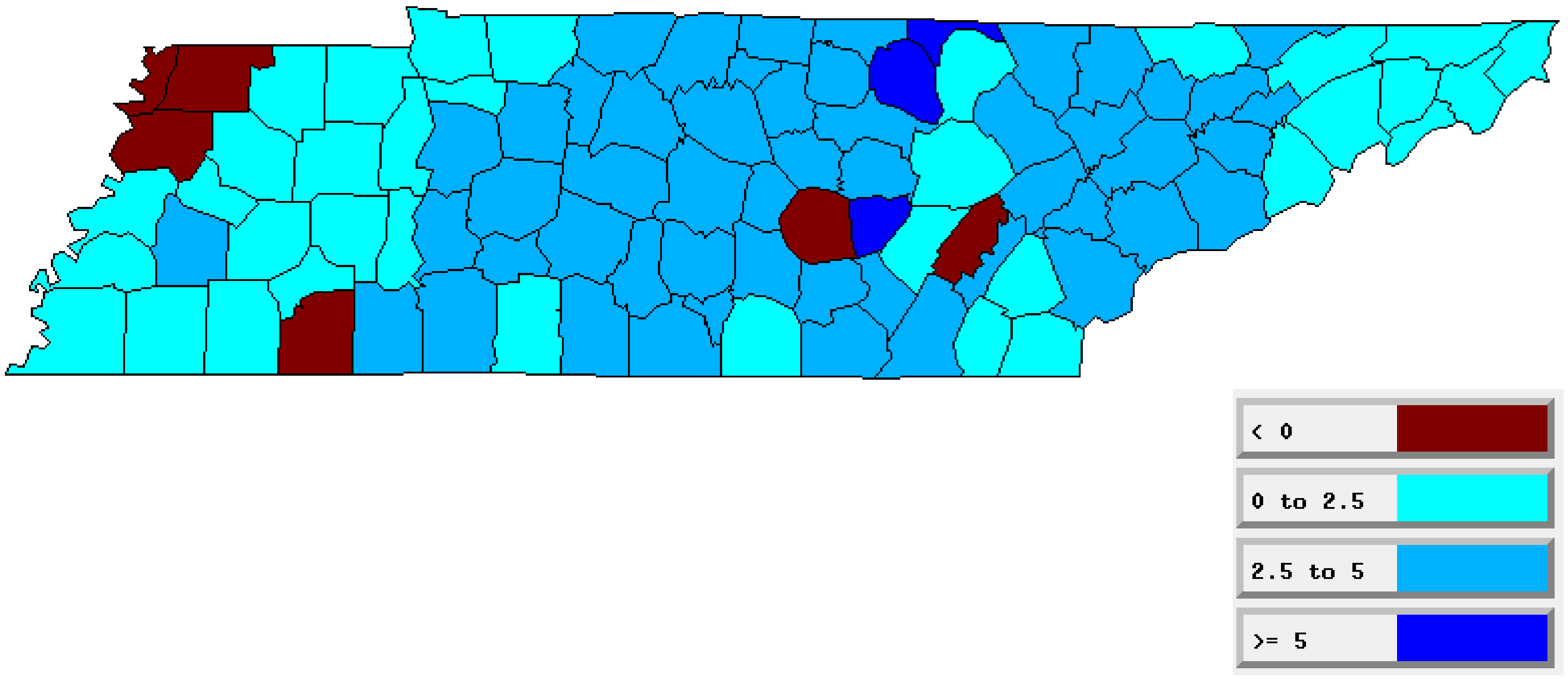


Labor Force by TN MSA: Sep 2018

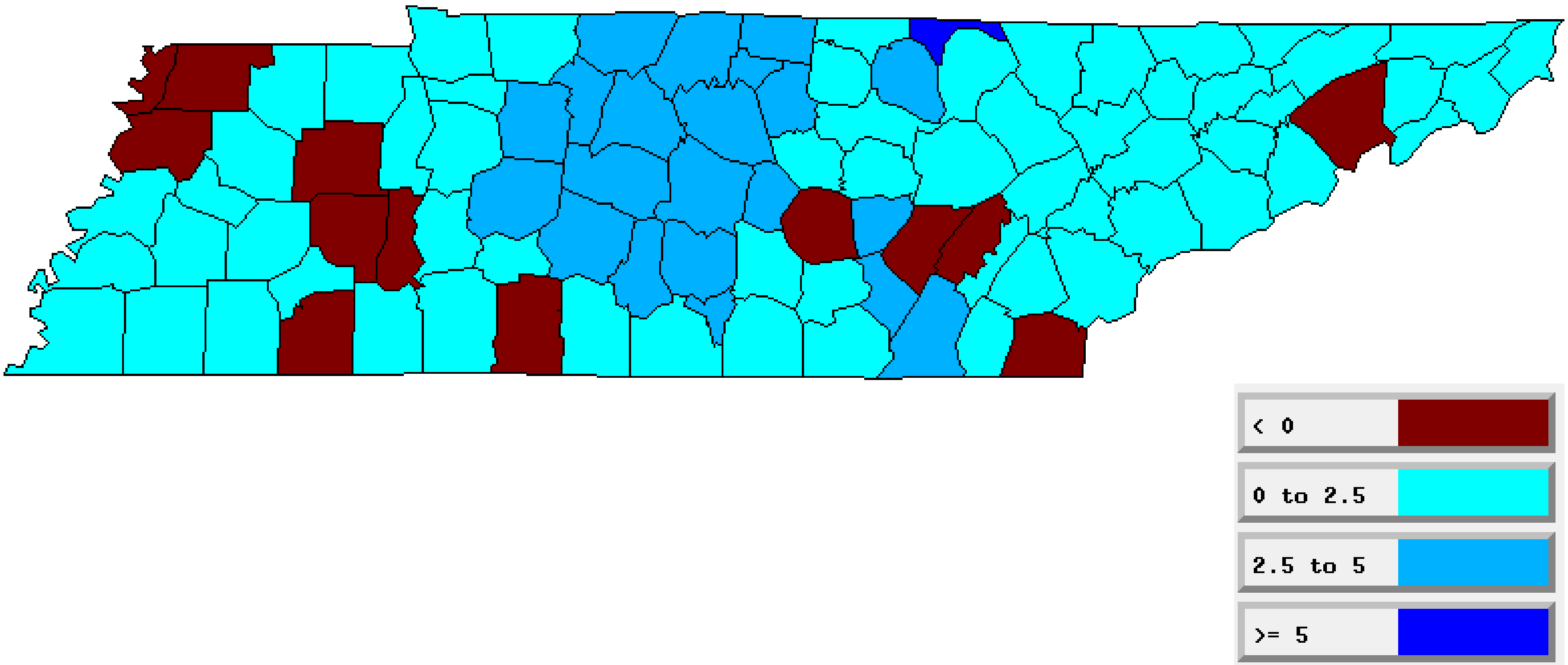



Average Weekly Earnings by TN MSA: Sep 2018
Dollars
849.8
718.8
825.5
741.9
704.3
649.7
930.5
849.2
685.4
983.3
Chattanooga
Clarksville
Cleveland
Jackson
JohnsonCity
Kingsport
Knoxville
Memphis
Morristown
Nashville
Tennessee MSA

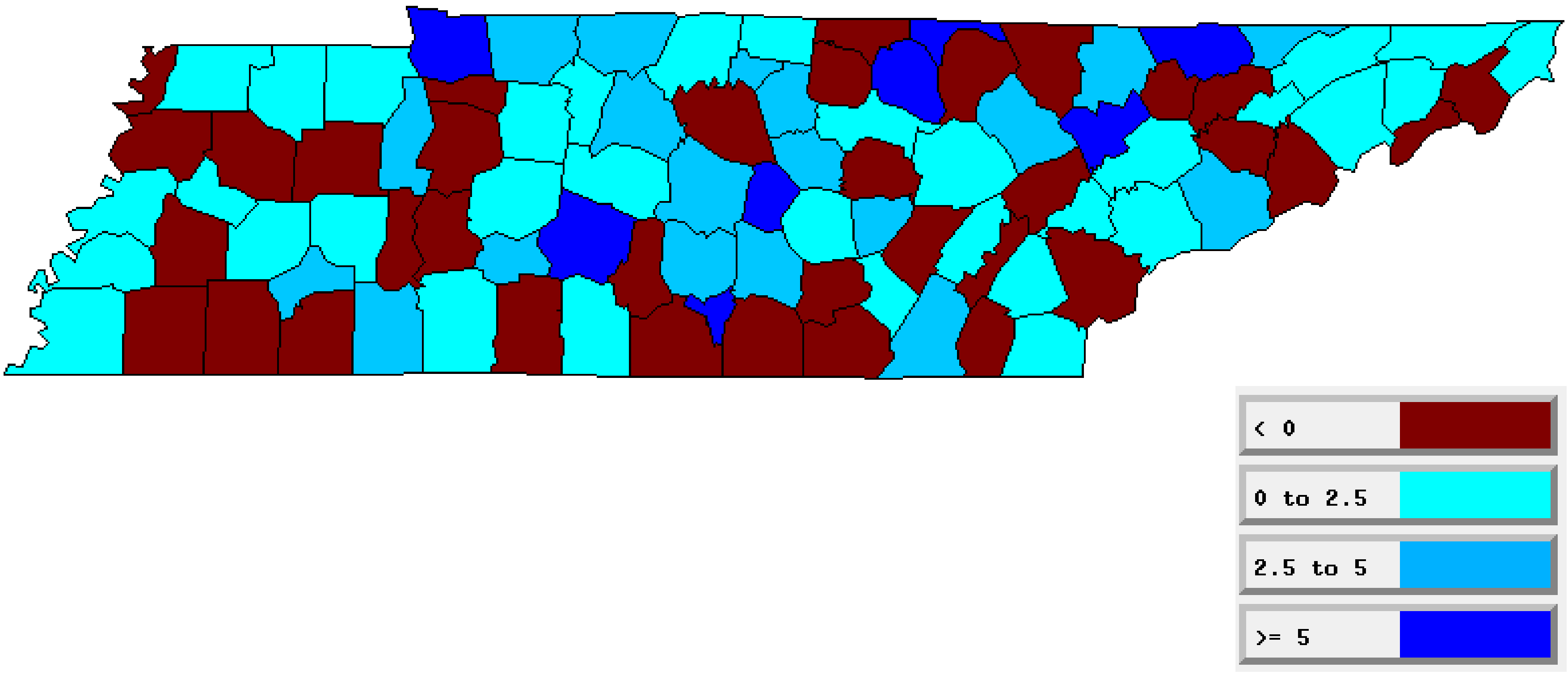
PERCENT CHANGES IN COUNTY EMPLOYMENT
2017 - 2018



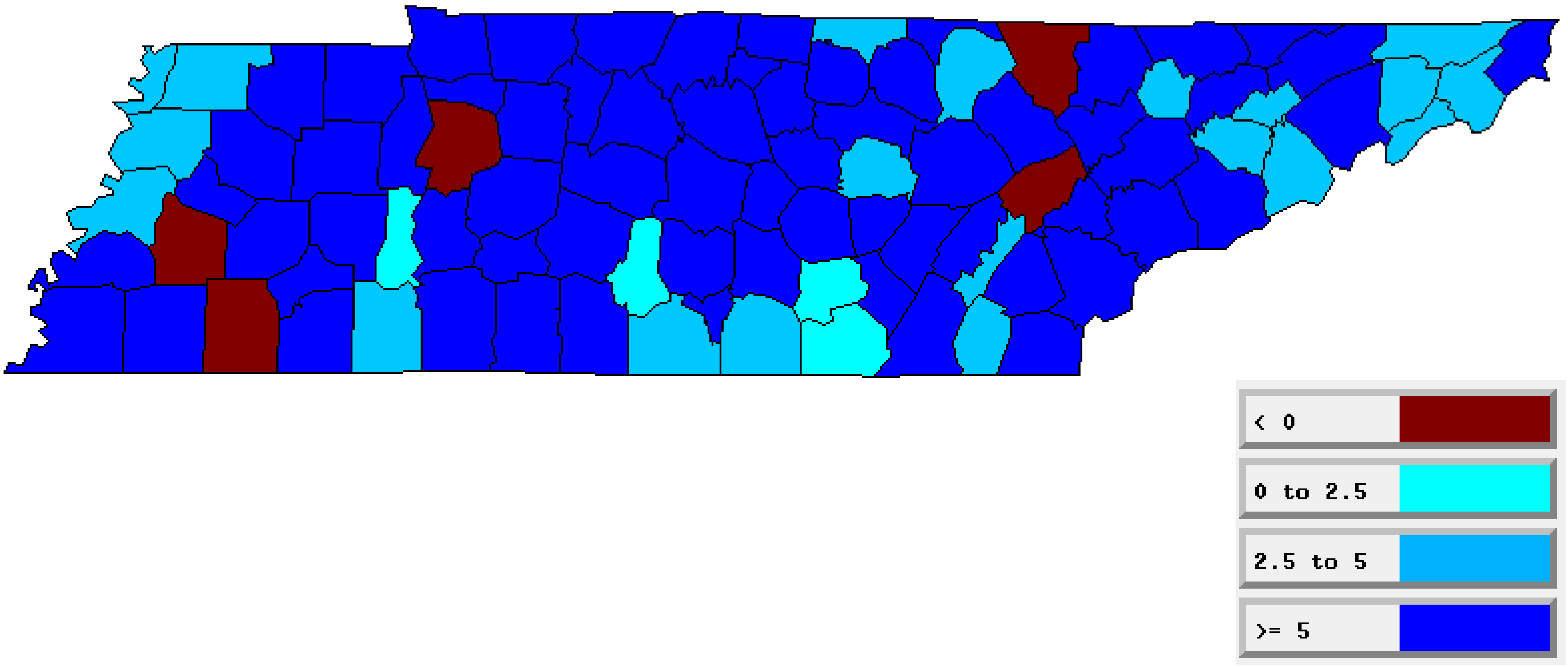
CHANGES IN COUNTY LABOR FORCE
2017 - 2018



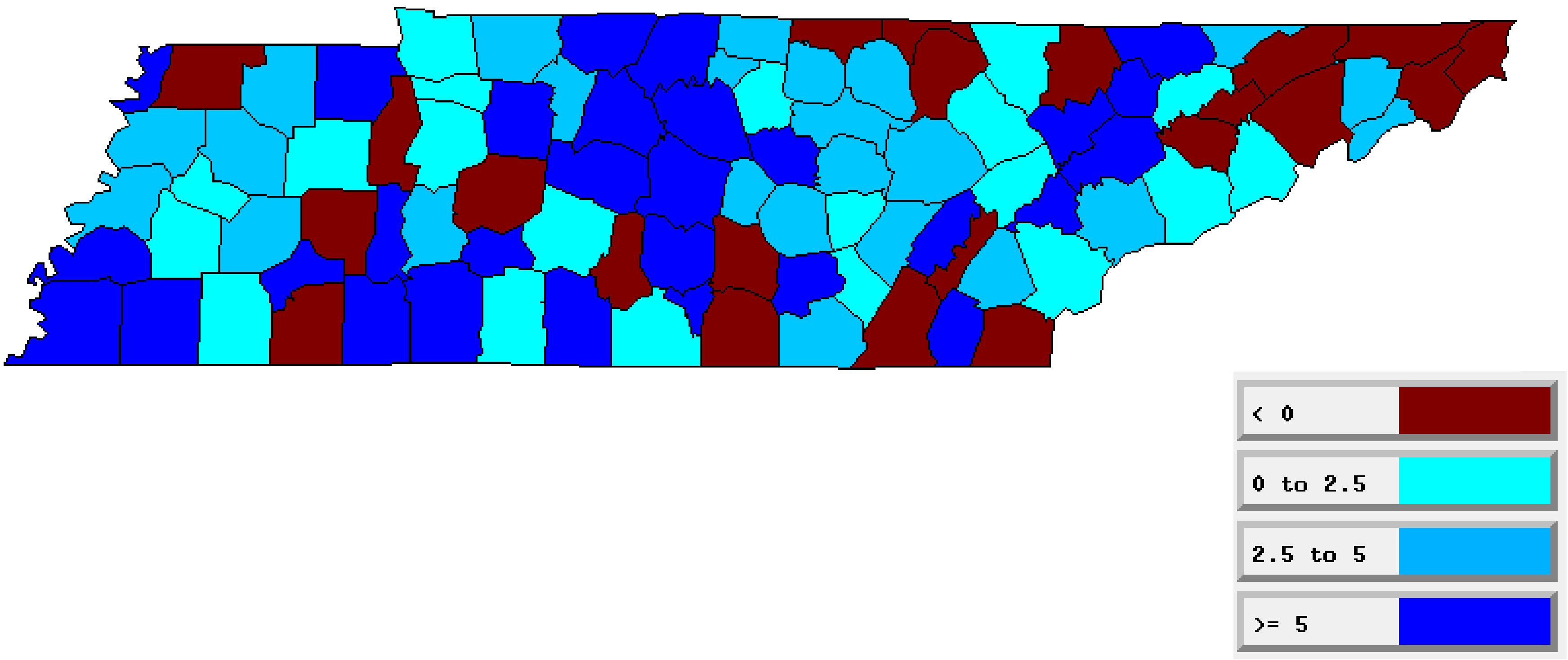
CHANGES IN COUNTY STATE SALES TAX COLLECTIONS 2017 - 2018



CHANGES IN COUNTY LOCAL SALES TAX COLLECTIONS
2017 - 2018



CHANGES IN COUNTY BANK DEPOSITS
2017 - 2018



FY 2018 – 2019 REVENUE FORECAST

ACCRUAL YEAR BASIS	FY 17 - 18	FY 18 - 19		FY 19 - 20		FY 20 - 21	
SOURCE OF REVENUE	AMOUNT	AMOUNT	PERCENT CHANGE OVER PERVIOUS YEAR	AMOUNT	PERCENT CHANGE OVER PERVIOUS YEAR	AMOUNT	PERCENT CHANGE OVEI PERVIOUS YEA
SALES & USE[1]	$8,835,187,100	$9,035,120,000	2.26%	$9,318,100,000	3.13%	$9,560,400,000	2.60%
GASOLINE TAX	$807,686,700	$853,000,000	5.61%	$890,000,000	4.34%	$930,000,000	4.49%
MOTOR FUEL TAX	$222,690,400	$273,500,000	22.82%	$292,300,000	6.87%	$313,400,000	7.22%
GASOLINE INSPECTION TAX	$68,964,800	$69,630,000	0.96%	$70,370,800	1.06%	$71,400,000	1.46%
MOTOR VEHICLE REGISTRATION TAX	$327,417,400	$353,800,000	8.06%	$362,050,000	2.33%	$376,200,000	3.91%
INCOME TAX	$245,979,600	$179,000,000	-27.23%	$143,800,000	-19.66%	$78,300,000	-45.55%
PRIVILEGE TAX[2]	$360,069,900	$374,450,000	3.99%	$415,800,000	11.04%	$453,300,000	9.02%
GROSS RECEIPTS TAX	$343,562,100	$342,110,000	-0.42%	$345,320,000	0.94%	$352,750,000	2.15%
GROSS RECEIPTS TAX - OTHER	$24,809,400	$26,800,000	8.02%	$27,500,000	2.61%	$28,000,000	1.82%
BEER TAX	$16,663,400	$17,700,000	6.22%	$17,750,000	0.28%	$17,720,000	-0.17%
ALCOHOLIC BEVERAGE TAX	$66,676,800	$71,810,000	7.70%	$73,500,000	2.35%	$76,800,000	4.49%
FRANCHISE & EXCISE TAX	$2,570,771,100	$2,681,450,000	4.31%	$2,716,150,000	1.29%	$2,820,000,000	3.82%
INHERITANCE TAX	-$731,900	-	-	-	-	-	-
TOBACCO TAX	$248,160,900	$251,520,000	1.35%	$254,470,000	1.17%	$259,000,000	1.78%
MOTOR VEHICLE TITLE FEES	$25,194,900	$26,100,000	3.59%	$26,150,000	0.19%	$26,550,000	1.53%
MIXED DRINK TAX	$119,340,900	$133,400,000	11.78%	$142,000,000	6.45%	$158,300,000	11.48%
BUSINESS TAX	$198,268,600	$193,896,500	-2.21%	$190,010,000	-2.00%	$188,200,000	-0.95%
SEVERANCE TAX	$1,022,000	$1,100,000	7.63%	$1,150,000	4.55%	$1,200,000	4.35%
COIN AMUSEMENT TAX	$288,500	$301,500	4.51%	$400,900	32.97%	$416,000	3.77%
UNAUTHORIZED SUBSTANCE TAX	$100	$100	0%	$100	0%	$100	0%
TOTAL	$14,482,022,700	$14,884,688,100	2.78%	$15,286,821,800	2.70%	$15,711,936,100	2.78%
cludes $112 million estimated earmarked fees ected for E911 service							
cludes $52 million estimated earmarked funds							

Distribution of Budgeted Revenue Estimate by Fund

Fiscal Year 2018 - 2019

	Total Revenue	General Fund & Education Fund	Highway Fund	Debt Service Fund	Cities & Counties
Sales and Use Tax	$9,035,120,000	$8,490,220,000	$15,400,000	$64,200,000	$465,300,000
Gasoline Tax	$853,000,000	$14,200,000	$433,500,000	$80,200,000	$325,100,000
Motor Fuel Tax	$273,500,000	$4,100,000	$197,700,000	-	$71,700,000
Gasoline Inspection tax	$69,630,000	$20,500,000	$37,130,000	-	$12,000,000
MotorVehicle Registration Tax	$353,800,000	$57,700,000	$296,100,000	-	
Income Tax	$179,000,000	$118,000,000	-	-	$61,000,000
Privilege Tax	$374,450,000	$368,800,000.00	-	-	$5,650,000
Gross Receipts Tax - TVA	$342,110,000	$188,200,000.00	-	-	$153,910,000
Gross Receipts Tax - Other	$26,800,000	$22,100,000.00	$4,700,000.00	-	
Beer Tax	$17,700,000	$11,800,000.00	$2,250,000.00	-	$3,650,000
Alcoholic Beverage Tax	$71,810,000	$59,400,000.00	-	-	$12,410,000
Franchise & Excise Tax	$2,681,450,000	$2,426,450,000.00	-	$215,000,000	$40,000,000
Inheritance and Estate Tax	-	-	-	-	-
Tobacco Tax	$251,520,000	$251,520,000	-	-	-
Motor Vehicle Title fees	$26,100,000	$23,400,000	-	$2,700,000	-
Mixed Drink Tax	$133,400,000	$66,700,000	-	-	$66,700,000
Business Tax	$193,900,000	$193,900,000	-	-	
Severance Tax	$1,100,000	$300,000	-	-	$800,000
Coin-operated Amusement Tax	$301,500	$301,500	-	-	-
Unauthorized Substance Tax	-	-	-	-	-

TN Department of Revenue

Estimated State Tax Revenue

November 20, 2018

Fiscal Year 2018 Tax Revenue

COMPARISON OF ACCRUAL STATE TAX REVENUE

DEPARTMENT OF REVENUE TAXES

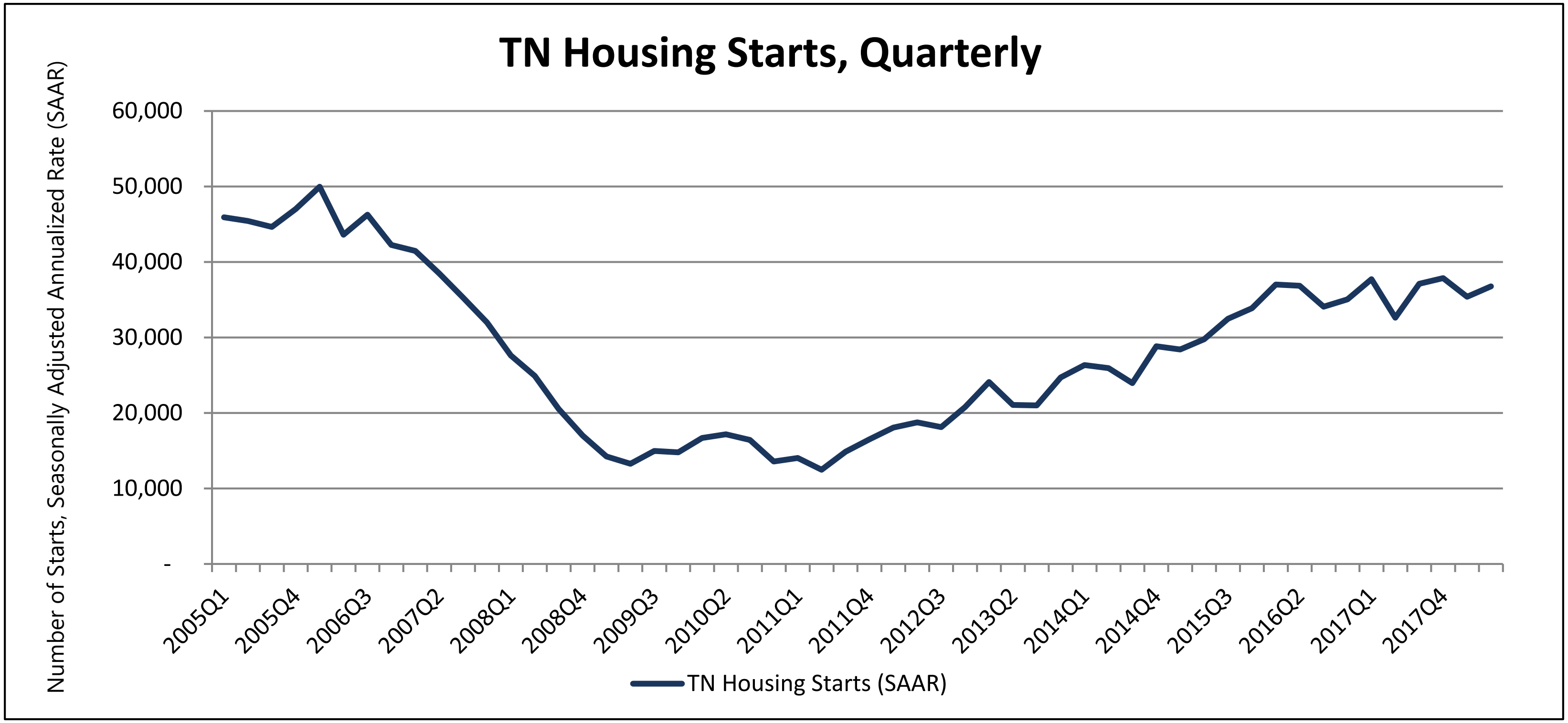
YEAR OVER YEAR COMPARISON

	Fiscal Year 2017	Fiscal Year 2018	% Change	Tax Weight	Total % Point Contribution
Sales and Use Tax	$8,556,773,600	$8,835,187,100	3.25%	60.96%	1.98%
Hall Income Tax	250,126,200	245,979,600	-1.66%	1.78%	-0.03%
Corporate Franchise and Excise Tax	2,620,205,200	2,570,771,100	-1.89%	18.67%	-0.35%
Gasoline Tax	669,631,000	807,686,700	20.62%	4.77%	0.98%
Other	1,940,348,565	2,022,398,200	4.23%	13.82%	0.58%
TOTAL ACCRUAL REVENUE	**$14,037,084,565**	**$14,482,022,700**	**3.17%**	**100%**	**3.17%**

*Data from F&A

Housing

- Housing starts increased 5.5% from FY 2017 – FY 2018
- By the end of FY 2019, housing starts are expected to increase 4.6% from a year earlier



Note: Data from the U.S. Census Bureau, forecast from Moody's Analytics

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	$48,027,994	3.60%	$1,667,192
June	$50,064,368	11.59%	$5,198,323
July	$50,802,192	10.83%	$4,963,856
August	$47,009,718	12.27%	$5,136,737
September	$43,943,296	12.84%	$5.001,301
October	$43,609,296	4.31%	$1,803,357
		6.62%	**$18,769,465**

Privilege Tax Collections from Realty Transfer

	Collections	YOY % Growth	YOY $ Growth
May	$15,091,394	18.42%	$2,347,763
June	$16,656,704	6.06%	$951,148
July	$17,543,011	10.24%	$1,629,246
August	$16,493,846	9.54%	$1,436,016
September	$17,059,054	11.37%	$1,741,274
October	$11,548,020	-19.13%	-$2,732,431
		5.69%	**$5,373,016**

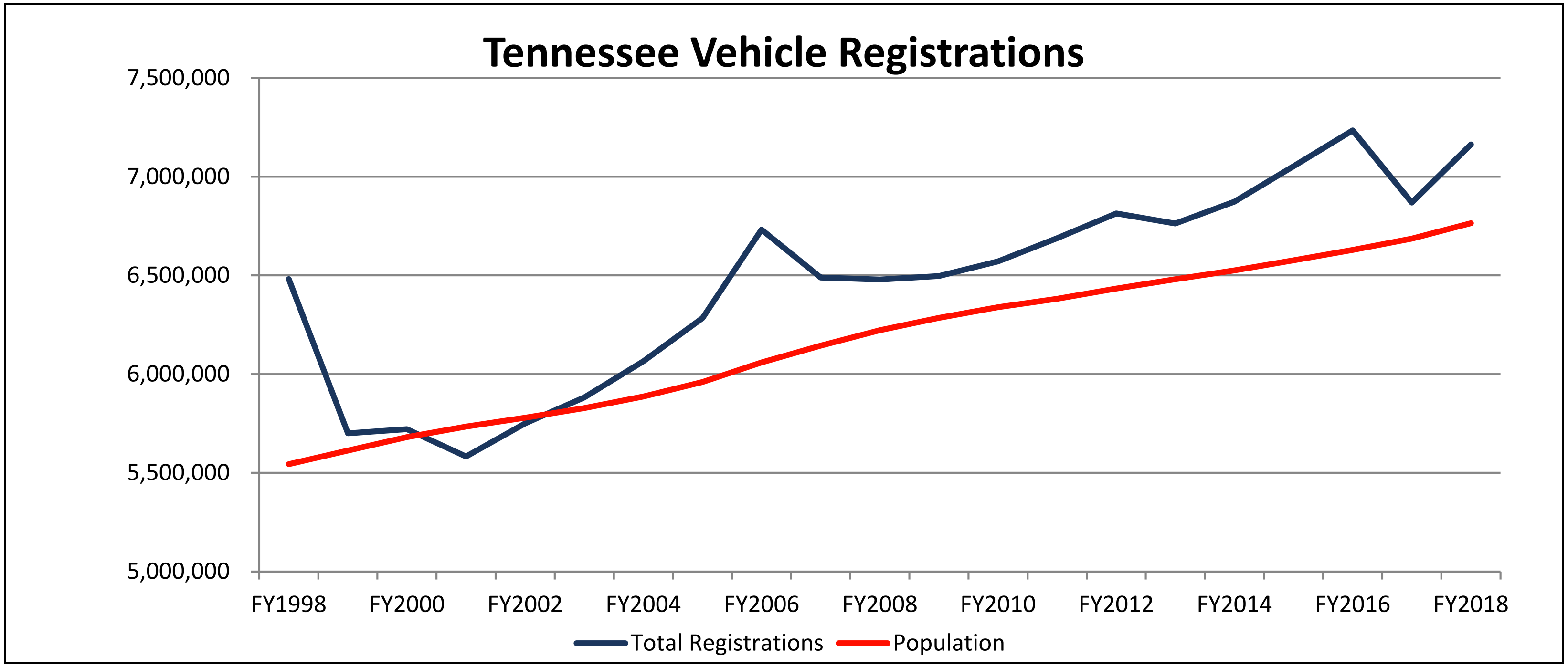
Privilege Tax Collections from Realty Mortgage

	Collections	YOY % Growth	YOY $ Growth
May	$6,100,895	14.30%	$763,429
June	$6,691,389	-2.43%	-$166,418
July	$6,290,695	2.98%	$181,901
August	$6,081,009	5.34%	$308,395
September	$6,389,868	6.96%	$415,761
October	$4,540,280	-18.92%	-$1,059,424
		1.23%	**$443,644**

	6 Month Total Growth	**5.94%**	**$24,586,125**

Automotive

- Tennessee vehicle registrations increased 4.3% from FY 2017 – FY 2018
- By the end of FY 2019, vehicle registrations are expected to increase 2.5% from a year earlier



Note: Registration data and forecast from the Department of Revenue, population data from the U.S. Census Bureau

Tax Implications

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

Growth is presented as year over year (YOY)

Sales Tax Collections from Motor Vehicle Dealers, New & Used

	Collections	YOY % Growth	YOY $ Growth
May	$52,406,867	-2.14%	-$1,145,211
June	$59,791,214	2.55%	$1,486,304
July	$58,185,929	5.30%	$2,928,418
August	$58,637,035	3.96%	$2,232,826
September	$60,601,519	3.72%	$2,172,777
October	$53,861,144	-1.78%	-$977,431
		1.95%	**$6,697,683**

Sales Tax Collections from Motor Vehicle Dealers, Used

	Collections	YOY % Growth	YOY $ Growth
May	$15,999,900	-2.29%	-$374,308
June	$16,775,125	-0.15%	-$25,884
July	$15,928,812	0.90%	$141,555
August	$15,484,122	-0.86%	-$134,428
September	$16,236,083	0.07%	$10,623
October	$14,298,882	-3.30%	-$487,310
		-0.92%	**-$869,752**

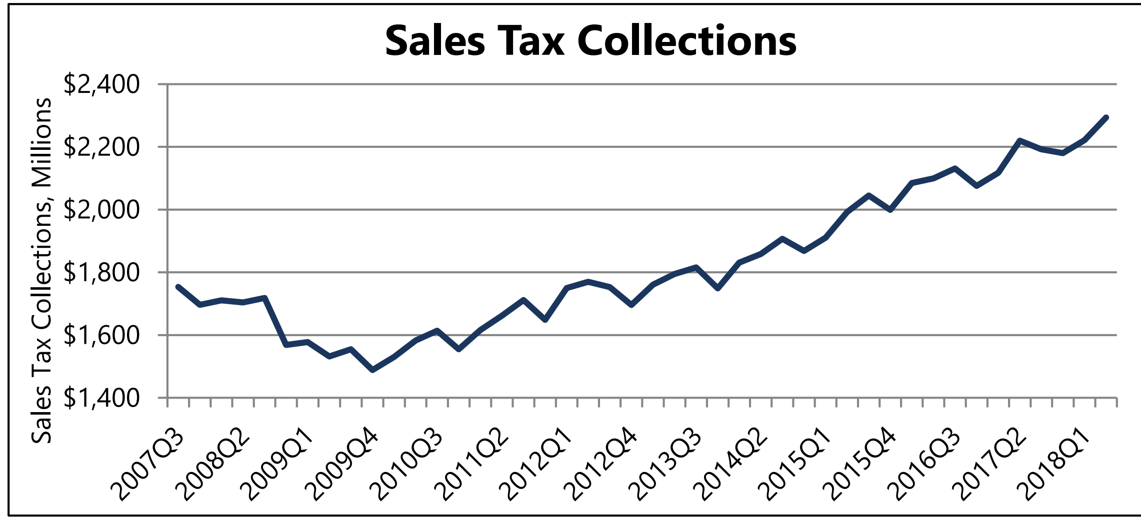
Sales Tax Collections from Auto Repair, Services, and Parking

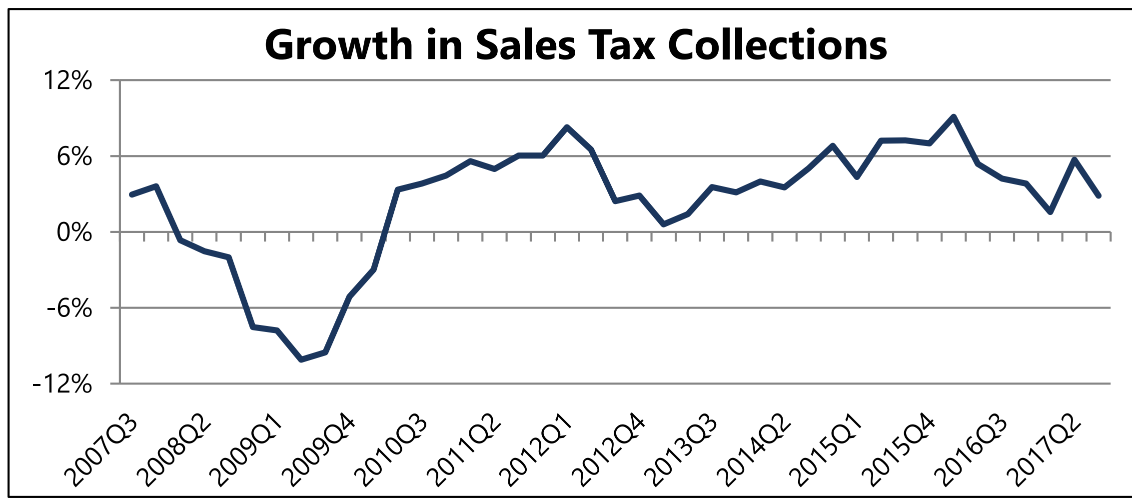
	Collections	YOY % Growth	YOY $ Growth
May	$17,818,579	2.79%	$483,580
June	$19,337,507	4.54%	$839,933
July	$17,543,079	-7.41%	-$1,404,777
August	$21,146,200	17.46%	$3,143,261
September	$19,869,636	5.52%	$1,040,080
October	$17,766,577	-1.58%	-$285,191
		3.36%	**$3,816,886**
	6 Month Total Growth	**1.75%**	**$9,644,818**

Sales

- State sales tax collections increased 3.25% from FY 2017 – FY 2018

- By the end of FY 2019, sales tax collections are expected to increase 4.40% from a year earlier





TN Department of Revenue

Note: Data and forecast from the Department of Revenue

Tax Implications

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

Growth is presented as year over year (YOY)

Sales Tax Collections from Eating & Drinking Places

	Collections	YOY % Growth	YOY $ Growth
May	$73,759,115	0.42%	$331,198
June	$74,227,240	-0.55%	-$408,668
July	$76,735,789	5.18%	$3,781,767
August	$73,556,536	2.26%	$1,625,439
September	$72,129,977	4.37%	$3,017,556
October	$72,503,731	2.18%	$1,548,362
		2.23%	**$9,895,654**

Sales Tax Collections from Hotels & Lodging Places

	Collections	YOY % Growth	YOY $ Growth
May	$21,105,884	2.53%	$520,693
June	$21,631,328	0.74%	$158,994
July	$24,478,386	3.82%	$901,209
August	$22,052,418	-2.64%	-$596,941
September	$20,276,031	-2.51%	-$521,124
October	$22,363,007	0.60%	$133,748
		0.45%	**$596,579**

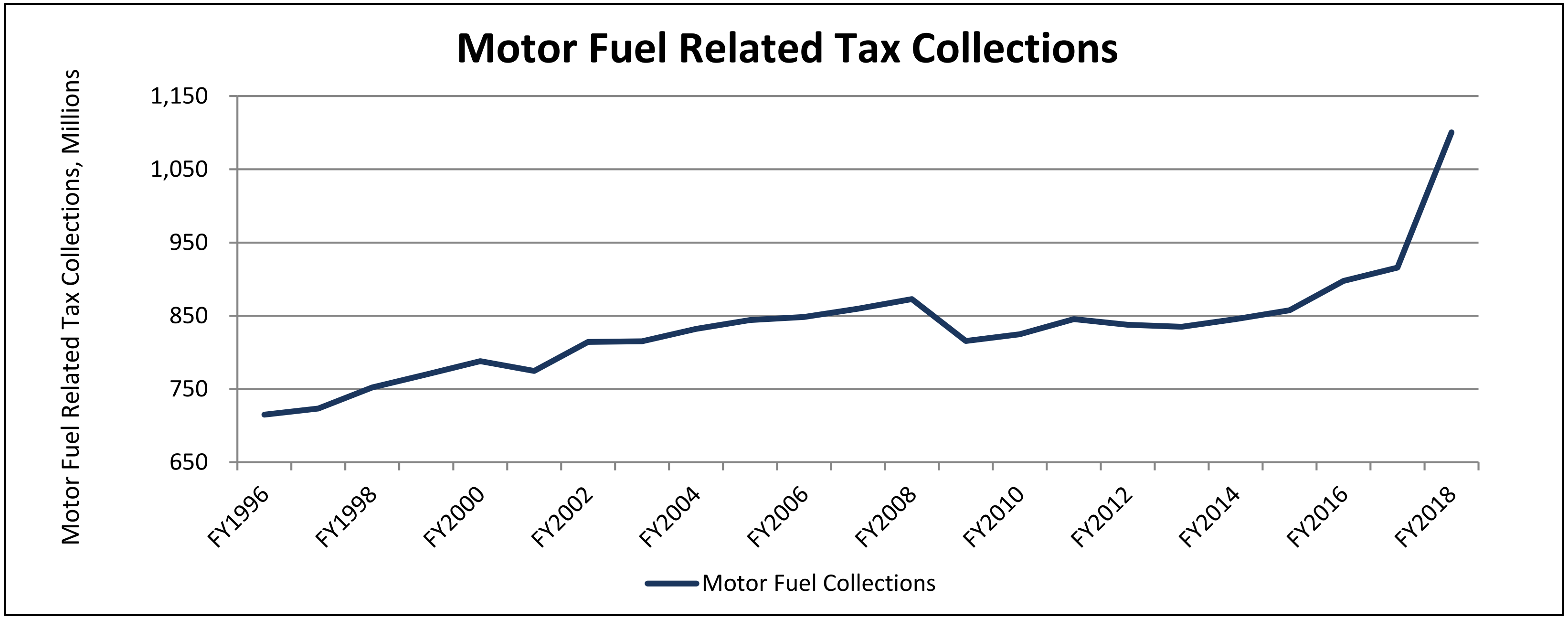
Mixed Drink (Liquor-by-the-Drink) Tax Collections

	Collections	YOY % Growth	YOY $ Growth
May	$10,768,784	13.19%	$1,255,269
June	$11,033,137	12.21%	$1,200,895
July	$11,079,432	14.72%	$1,421,482
August	$10,363,237	12.98%	$1,190,225
September	$10,953,920	19.55%	$1,791,262
October	$11,316,146	16.41%	$1,594,964
		12.90%	**$8,454,097**

6 Month Total Growth	**2.96%**	**$18,946,331**

Motor Fuel Related Collections*

- Motor fuel related tax collections increased 20.15% from FY 2018 – FY 2019
- By the end of FY 2020, collections are expected to increase 7.40% from a year earlier



*Motor fuel related tax collections include collections from the gasoline tax, the motor fuel tax, and the petroleum special tax.

Note: Data and forecast from the Department of Revenue

Tax Implications

Direct Revenue Implications of Increased Motor Fuel Related Activity (Most Recent 6 Month Data)
Growth is presented as year over year (YOY)

Sales Tax Collections from Gasoline Services Stations

	Collections	YOY % Growth	YOY $ Growth
May	$12,200,774	-4.31%	-$550,056
June	$13,416,142	1.10%	$145,486
July	$13,091,563	-1.67%	-$222,003
August	$13,245,975	0.71%	$93,909
September	$13,043,670	0.55%	$71,474
October	$12,377,094	-2.90%	-$369,264
		-1.07%	**-$830,454**

Gasoline Tax Collections

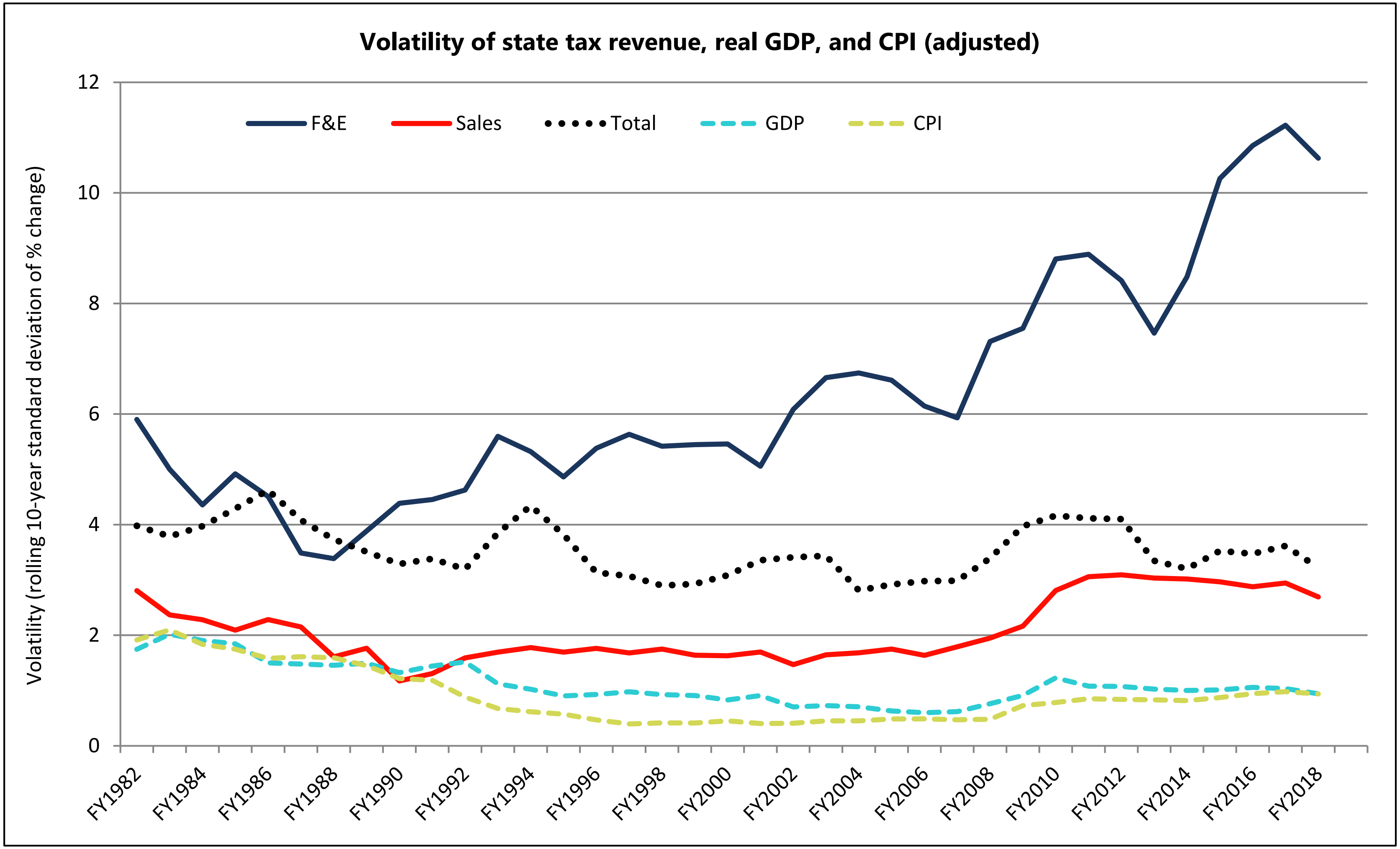
	Collections	YOY % Growth	YOY $ Growth
May	$68,882,384	15.07	$9,022,760
June	$72,284,857	29.06%	$16,277,653
July	$68,041,668	13.20%	$7,932,964
August	$76,730,337	7.69%	$5,479,778
September	$74,584,201	1.45%	$1,069,337
October	$69,802,765	-3.37%	-$2,437,021
		8.68%	**$37,345,471**

Motor Fuel Tax Collections

	Collections	YOY % Growth	YOY $ Growth
May	$16,525,782	17.92%	$2,511,928
June	$20,854,416	42.41%	$6,210,094
July	$21,176,045	32.29%	$5,168,496
August	$18,883,819	22.77%	$3,501,749
September	$22,637,320	8.09%	$1,694,875
October	$23,311,132	18.02%	$3,558,687
		18.35%	**$22,645,829**

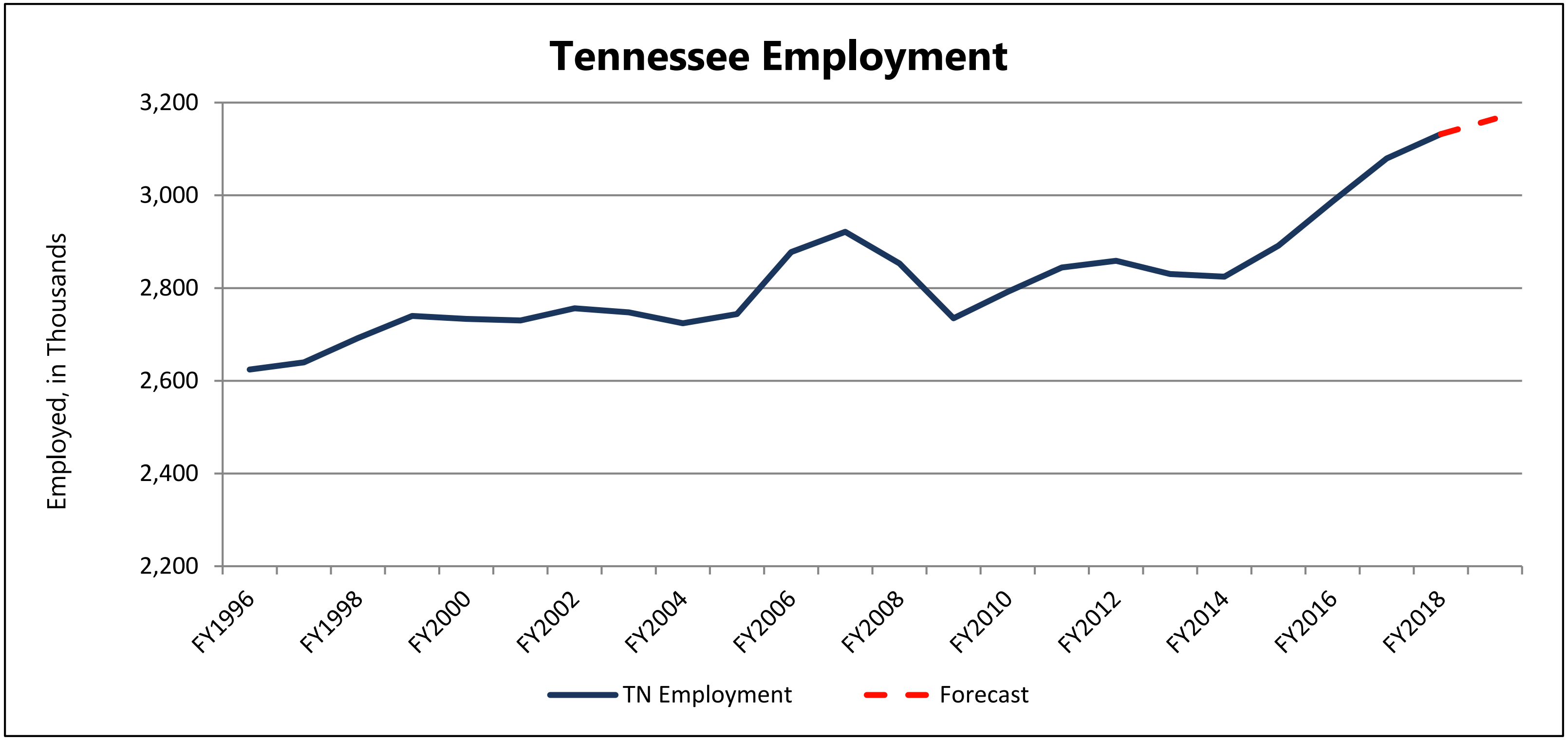
6 Month Total Growth	**9.37%**	**$59,160,846**

Tennessee Tax Volatility Comparison



Tennessee Employment

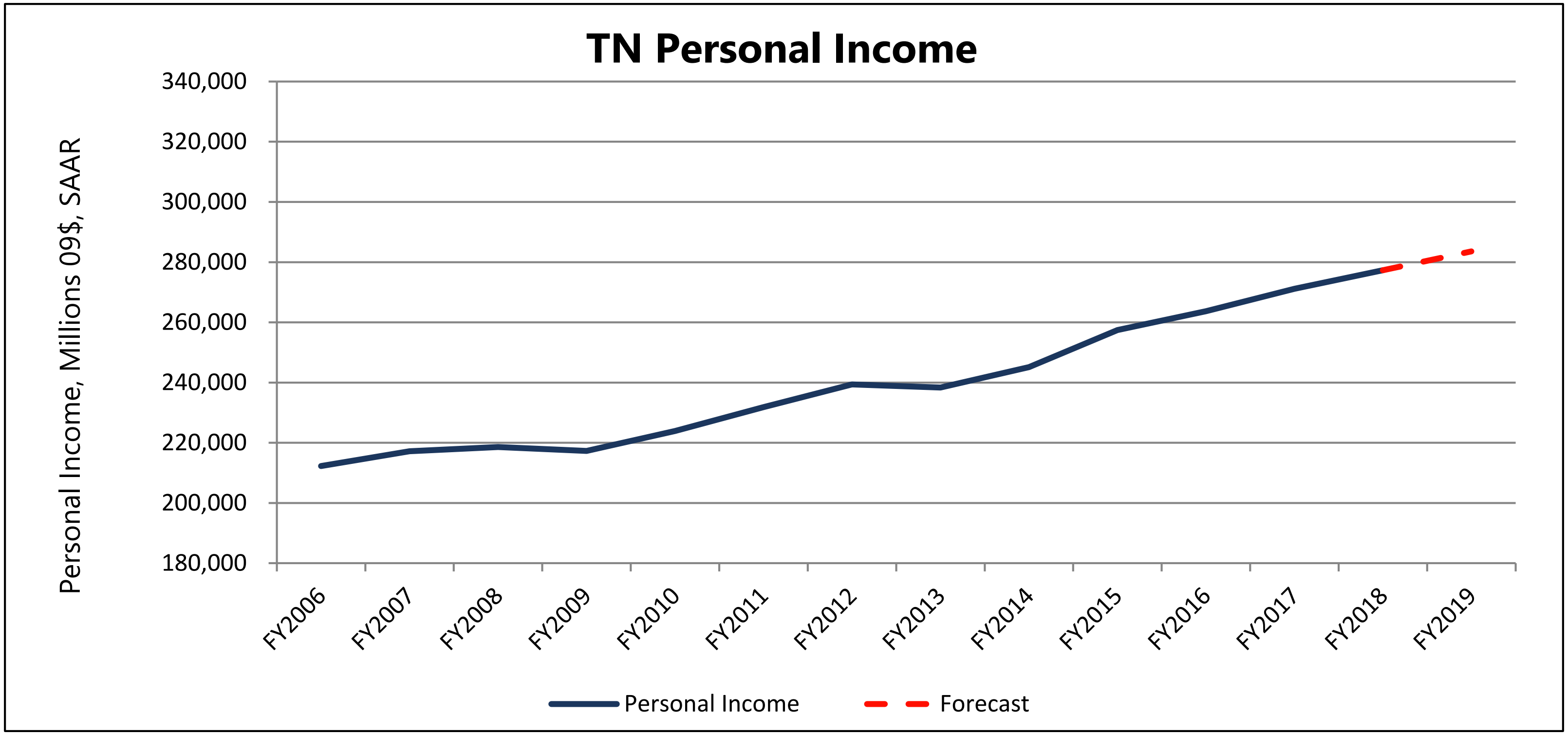
- Strong growth in employment
- Steady employment growth is expected over the forecast horizon



Note: Data from the Bureau of Labor Statistics, forecast from Moody's Analytics

Tennessee Personal Income

- Personal income gains of 2.27% for FY 2018
- Personal income gains of 2.26% are expected for FY 2019, led by growth in wages and salaries



TN Department of Revenue

Note: Data from the Bureau of Economic Analysis, forecast from Moody's Analytics

Non-Recurring Items

- Analyze daily tax revenue collections relative to previous years and budget estimates.
- Identify extraordinary or unusual payments using the Department of Revenue Business Intelligence tool and SAS programs.
- Focus analysis at the taxpayer level to identify the nature of payments and possible implications to total tax collections for the month.
- Maintain a list of one-time events and analyze any impact these payments may have on the following fiscal year.

Public Chapter 92 of 2015

- There are no known non-recurring items included in the estimates for fiscal year 2019 and the Department is not aware of any upcoming non-recurring payments in FY 2019.

- The fiscal year 2019 estimates do not include revenue estimates for any proposed or potential rule changes.

TN Department of Revenue

REVENUE COLLECTION ESTIMATES
STATE FUNDING BOARD MEETING - 11/20/2018
Accrual year basis (USD)

SOURCE OF REVENUE

Department of Revenue	Accrual Revenues FY 2018 Actual	Official Revenue Estimates FY2019	FY 2019 Revised Estimates FY 2019	FY 2019 % change[3] over FY 2018	FY 2020 Revenue Estimates FY 2020	FY 2020 % change[3] over FY 2019
Sales and Use Tax[1]	$8,835,200,000	$9,025,500,000	9,223,900,000	4.40%	9,596,500,000	4.04%
Gasoline Tax	807,700,000	849,000,000	842,200,000	4.27%	876,600,000	4.08%
Motor Fuel Tax	222,700,000	254,200,000	260,700,000	17.06%	299,100,000	14.73%
Gasoline Inspection Tax	69,000,000	69,600,000	69,800,000	1.16%	70,600,000	1.15%
Motor Vehicle Registration Tax	327,400,000	314,800,000	337,500,000	3.08%	347,200,000	2.87%
Income Tax	246,000,000	157,900,000	152,200,000	-38.13%	103,200,000	-32.19%
Privilege Tax[2]	360,100,000	372,600,000	376,300,000	4.50%	395,400,000	5.08%
Gross Receipts Tax - TVA	343,600,000	349,500,000	360,300,000	4.86%	363,900,000	1.00%
Gross Receipts Tax - Other	24,800,000	32,500,000	28,500,000	14.92%	29,100,000	2.11%
Beer Tax	16,700,000	18,100,000	16,800,000	0.60%	16,800,000	0.00%
Alcoholic Beverage Tax	66,700,000	71,200,000	69,400,000	4.05%	72,000,000	3.75%
Franchise & Excise Tax	2,570,800,000	2,523,900,000	2,716,300,000	5.66%	2,826,300,000	4.05%
Inheritance and Estate Tax	-700,000	-	-	-	-	-
Tobacco Tax	248,200,000	250,500,000	234,800,000	-5.40%	229,800,000	-2.13%
Motor Vehicle Title Fees	25,200,000	24,400,000	26,200,000	3.97%	27,300,000	4.20%
Mixed Drink Tax	119,300,000	122,200,000	132,100,000	10.73%	144,200,000	9.16%
Business Tax	198,300,000	179,100,000	213,800,000	7.82%	221,900,000	3.79%
Severance Tax	1,000,000	1,100,000	800,000	-20.00%	700,000	-12.50%
Coin-operated Amusement Tax	300,000	200,000	300,000	0.00%	300,000	0.00%
Total Department of Revenue	**$14,482,300,000**	**$14,616,300,000**	**$15,061,900,000**	**4.00%**	**$15,620,900,000**	**3.71%**
General Fund Only	**$12,023,600,000**	**$12,124,700,000**	**$12,500,400,000**	**3.97%**	**$12,952,900,000**	**3.62%**

[1]Excludes $112.0 million estimated earmarked fees collected under sales tax for E911 telecommunications service (2016 PC 1047).
[2]Privilege excludes $52.0 million dollar earmark not included by F&A
[3]Percent change in revenue for each tax is the calculated percentage change *after* rounding to nearest $100,000
Note: Totals may differ due to rounding

Definitions and Sources

- SAAR = Seasonally Adjusted Annualized Rate
- FY = Fiscal Year
- TN = Tennessee
- Data Sourced From:
  - Moody's Analytics (Fall, 2018)
  - BEA (Fall, 2018)
  - BLS (Fall, 2018)
  - U.S. Census Bureau (Fall, 2018)
  - TN Department of Revenue (Fall, 2018)
  - TN Department of Finance & Administration (Fall, 2018)

FY18-19 & FY19-20
Tax Revenue Estimates

Fiscal Review Committee Staff

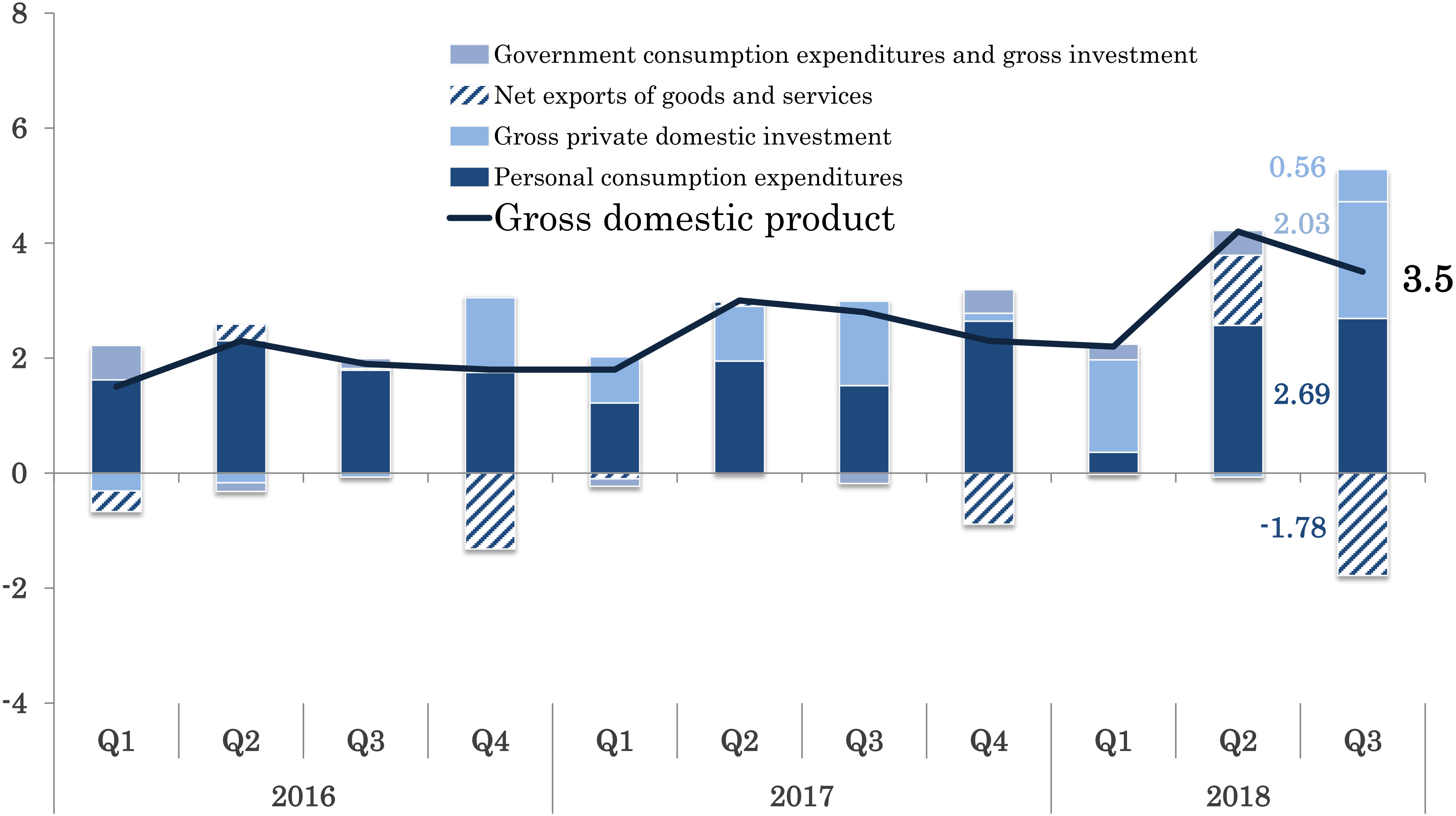
November 20, 2018

Overview

- Strong U.S. and TN economic conditions…currently
- Robust job creation supported by rising incomes
- Tight labor market
  - Expected continuous declines in unemployment rate as growth will exceed the sum of labor force and productivity gains
- Inflation will remain close to the target for the forecasting period (2.0% to 2.5%)
- Federal Reserve will continue to remove policy accommodations
  - Result: more modest economic growth
- Housing sector warning signs
- Diminishing fiscal stimulus in 2019
- Trade disputes: minimal economic impact in the near term; larger uncertainty in the mid to long term
- Demographics

U.S. Real GDP

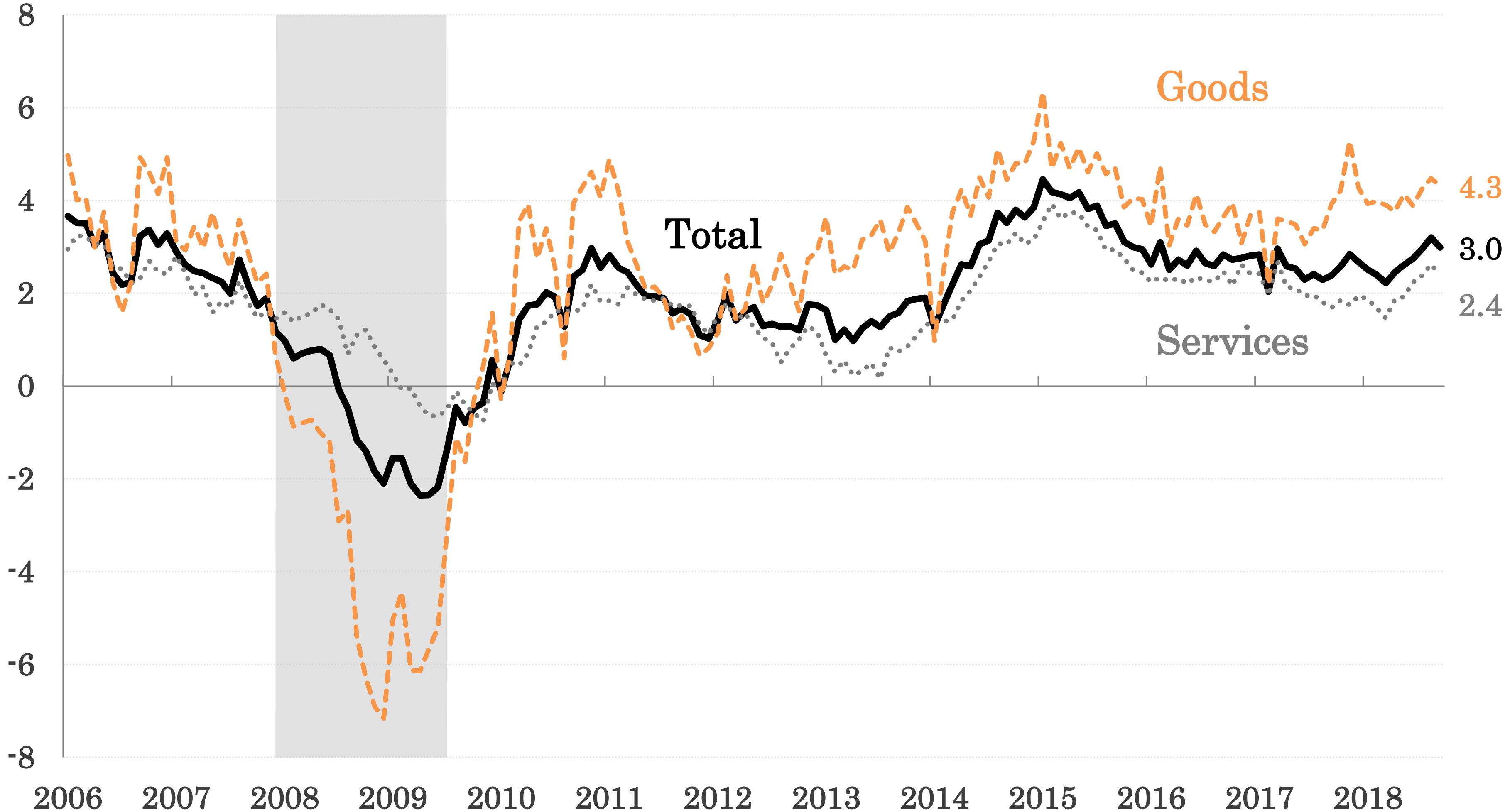
Contributions to % Change in Real GDP (SAAR)



Source: U.S. Bureau of Economic Analysis, November 6, 2018.

Real PCE and its Components

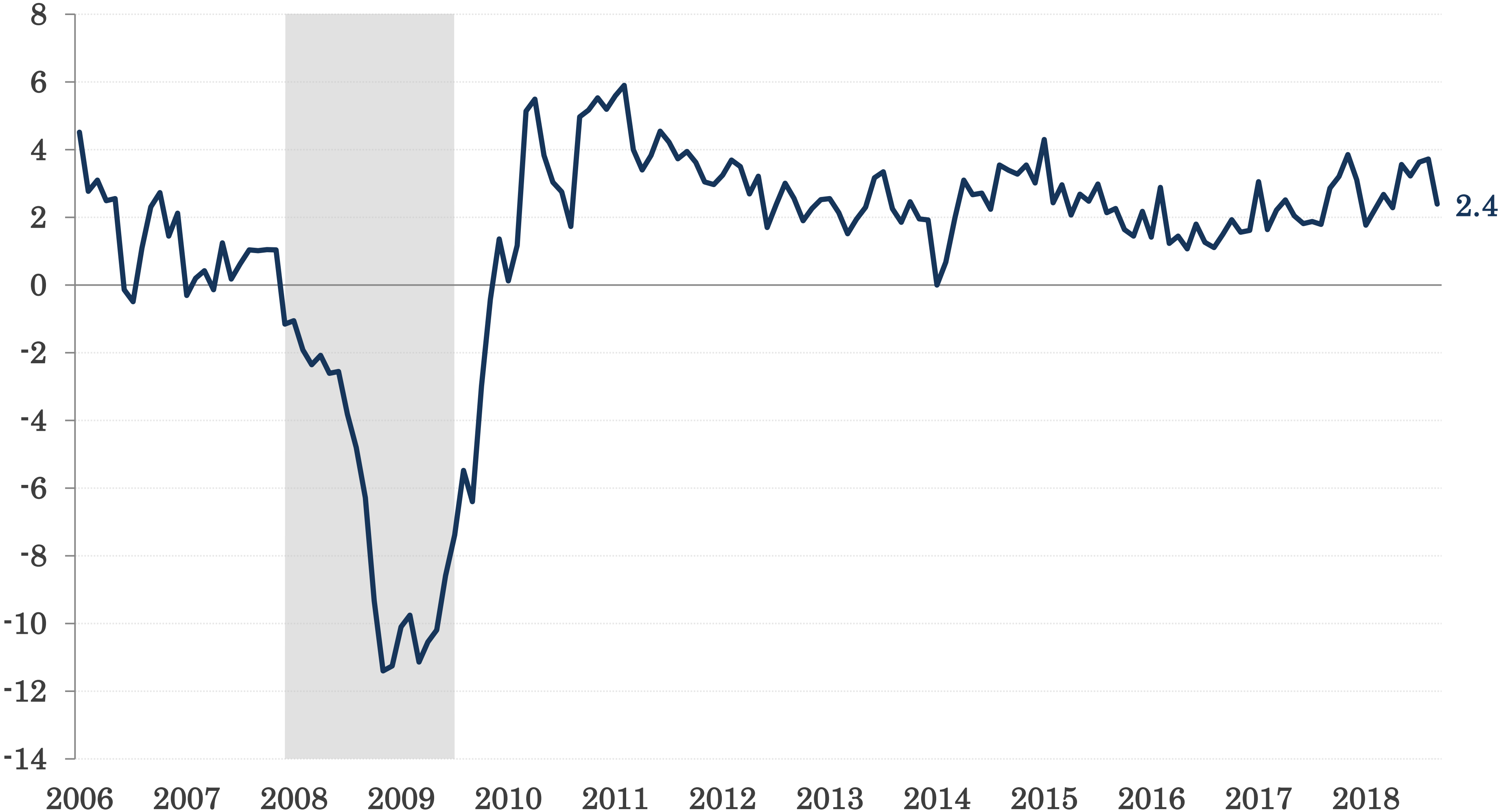
Year-over-Year % Change (Monthly, SAAR)



Source: U.S. Bureau of Economic Analysis; retrieved from FRED, Federal Reserve Bank of St. Louis, November 6, 2018.

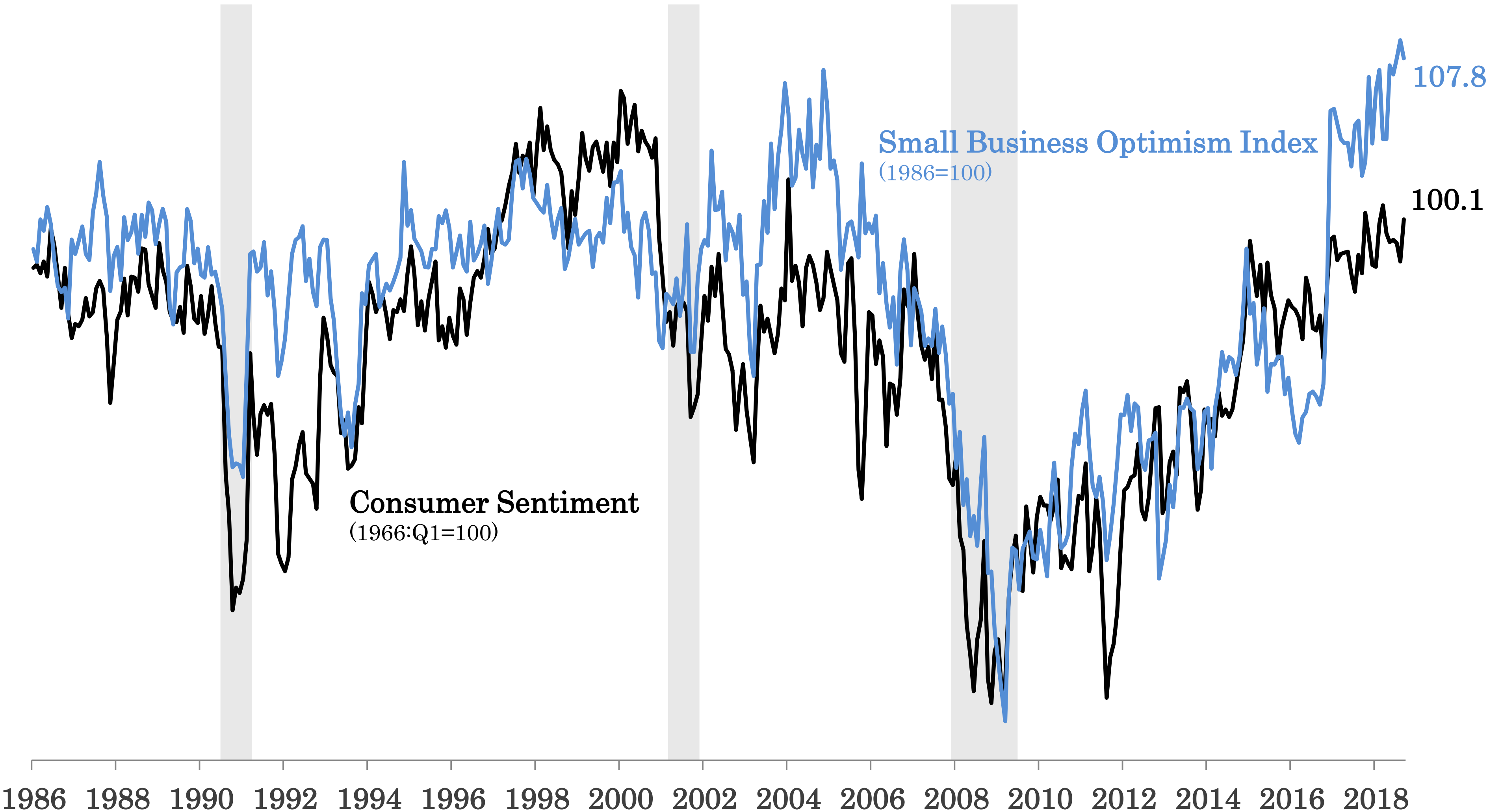
Advance Real Retail and Food Service Sales

Year-over-Year % Change (Monthly, SA)



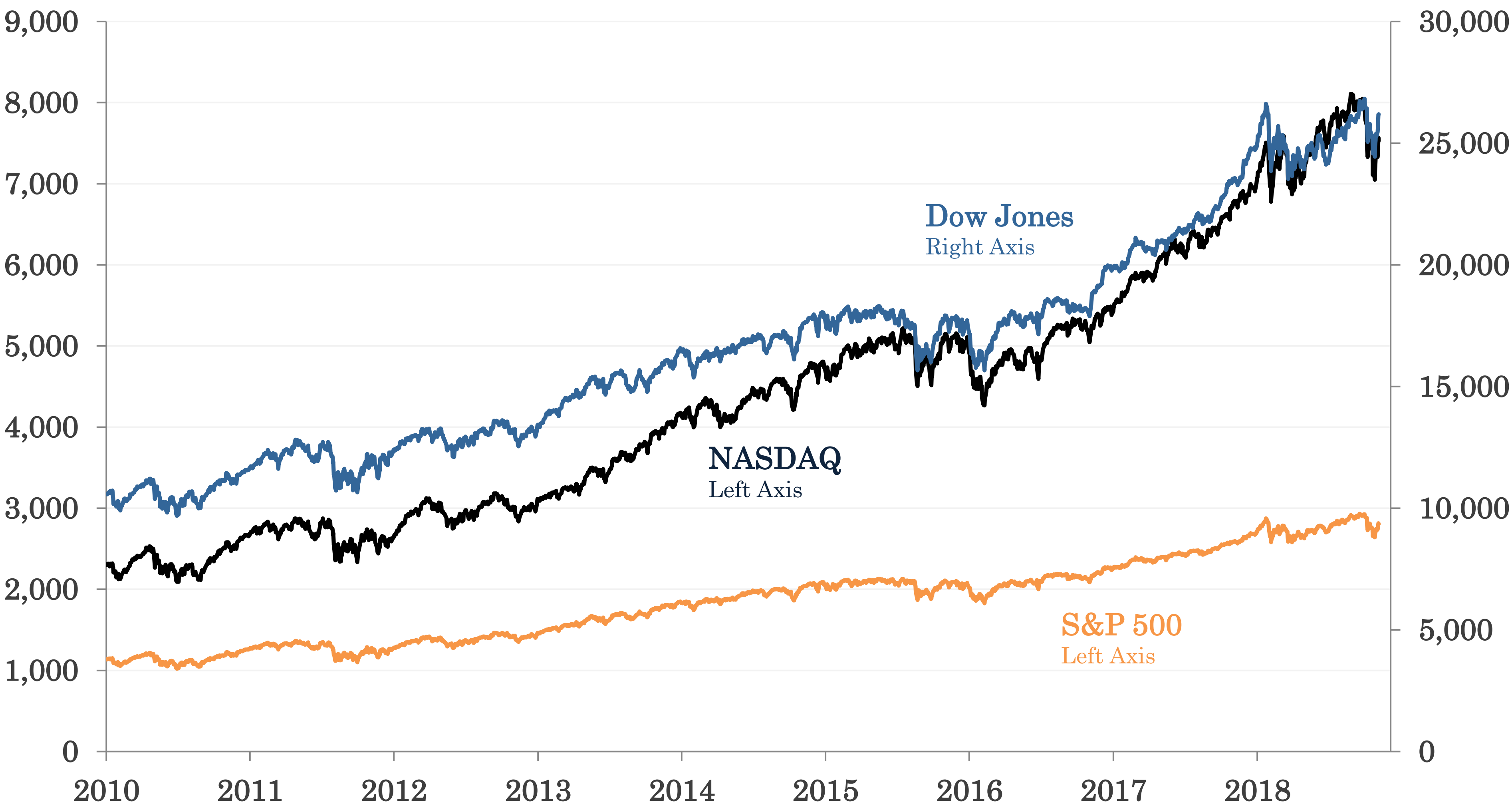
Source: Federal Reserve Bank of St. Louis, November 19, 2018.

Consumer Sentiment & Small Business Optimism



Sources: UofM, retrieved from FRED, Federal Reserve Bank of St. Louis; NFIB, retrieved from nfib-sbet.org, November 7, 2018.

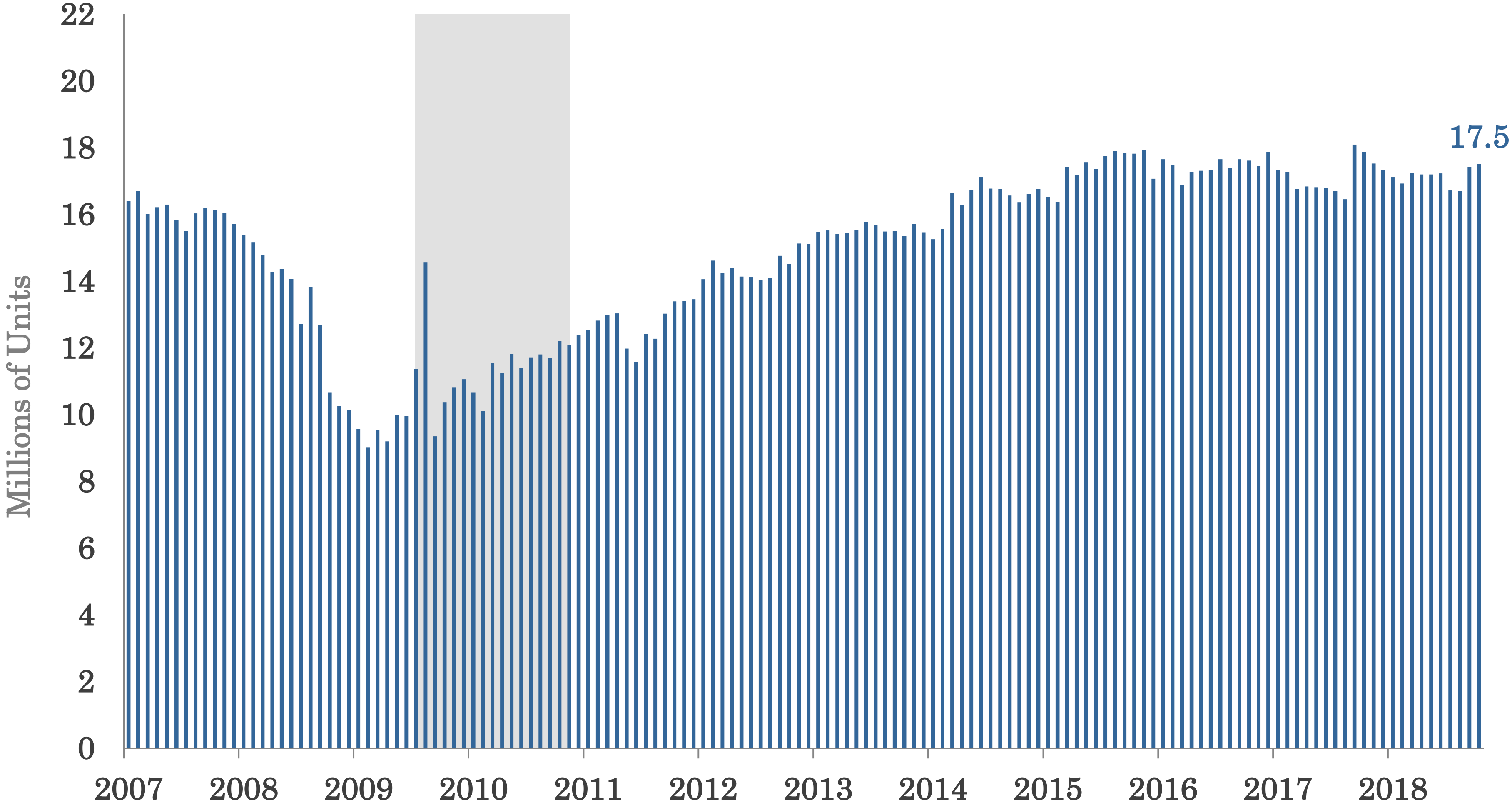
Stock Market



Sources: S&P Dow Jones Indices LLC; NASDAQ OMX Group; retrieved from FRED, Federal Reserve Bank of St. Louis, November 9, 2018.

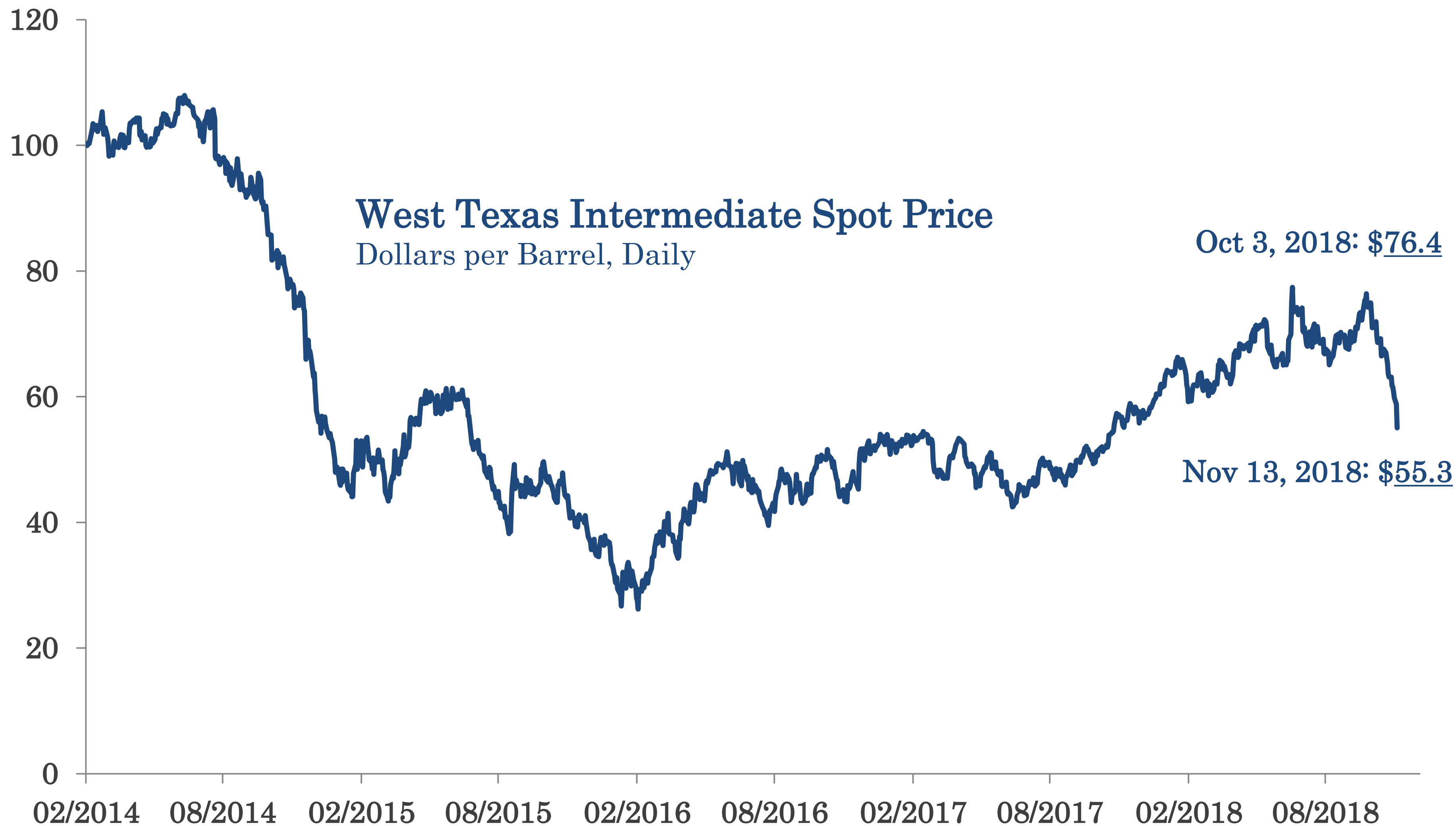
Auto Sector

U.S. Light Weight Vehicle Sales (Millions, SAAR)



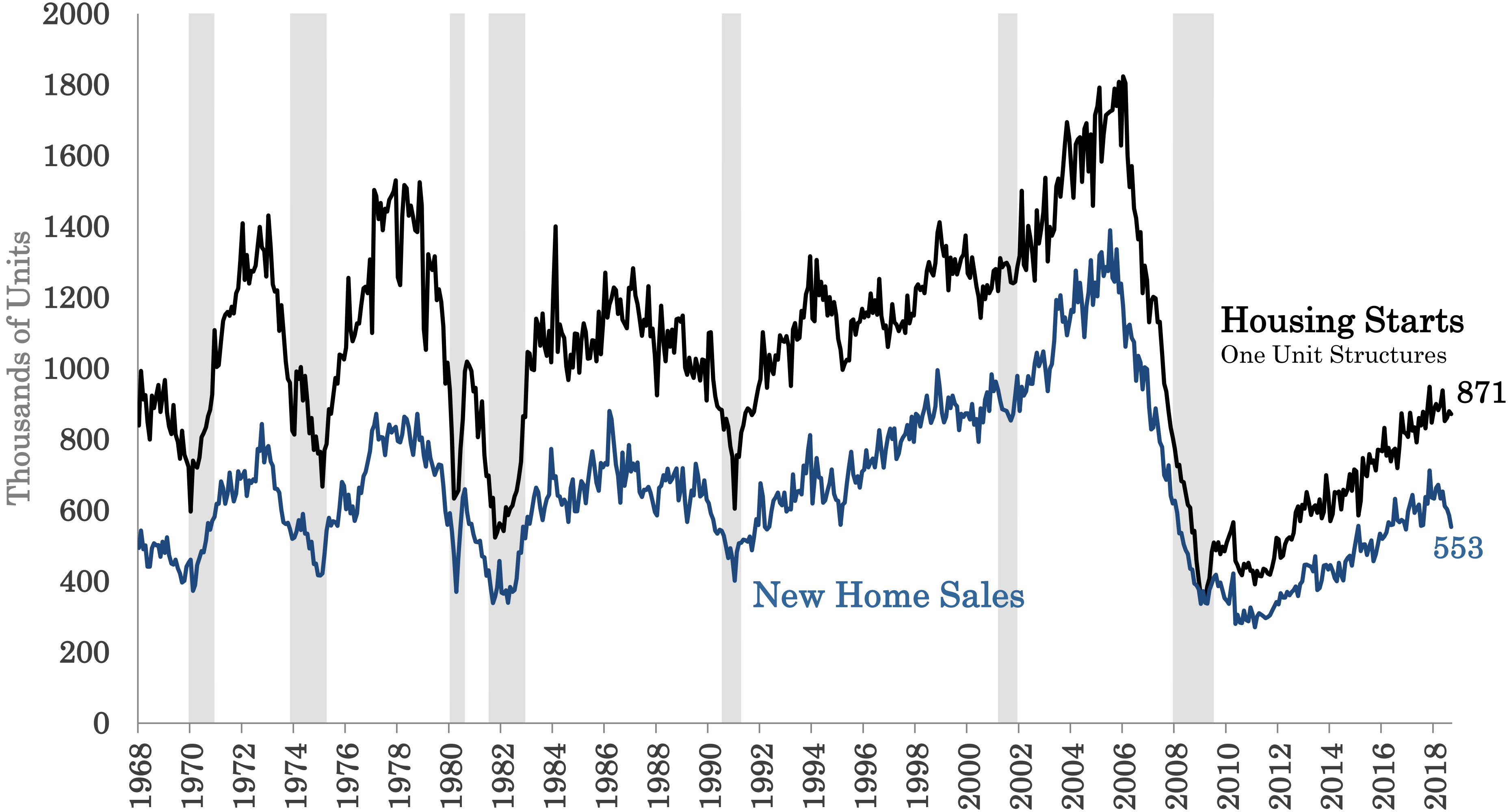
Source: U.S. Bureau of Economic Analysis, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

Oil Market



Source: Energy Information Administration, November 13, 2018.

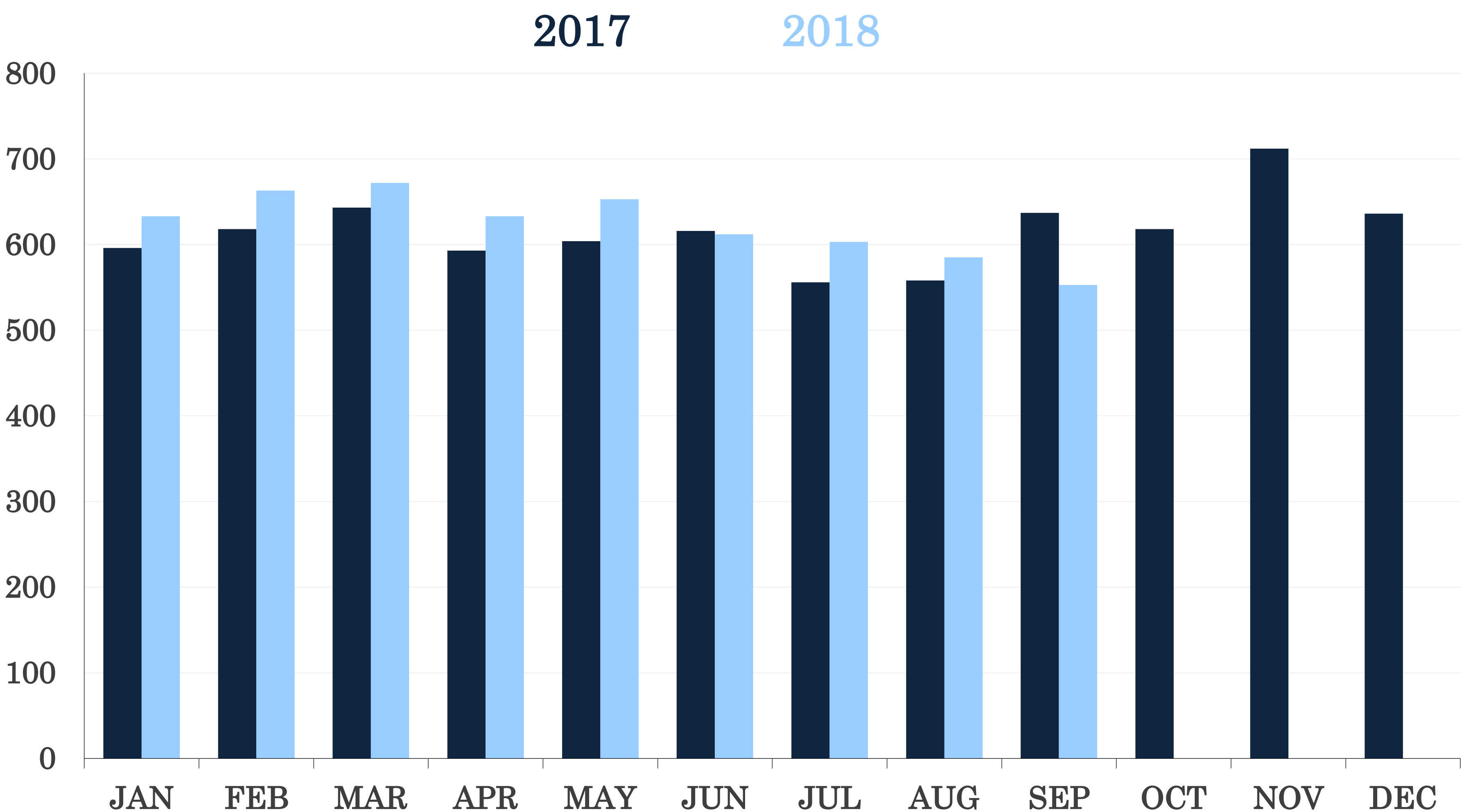
Housing Sector



Source: U.S. Bureau of the Census, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

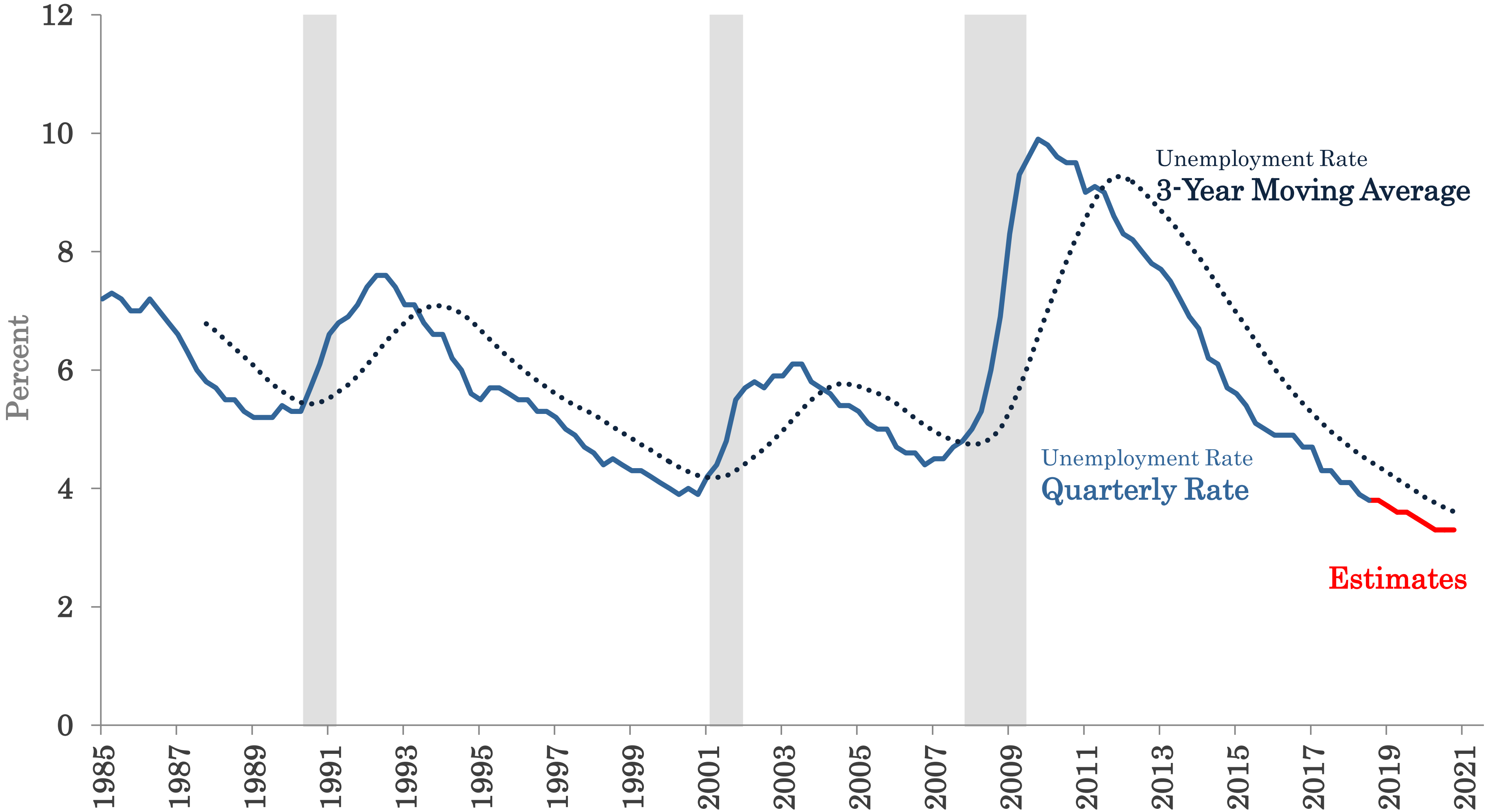
Housing Sector

New Home Sales (Thousands, SAAR)



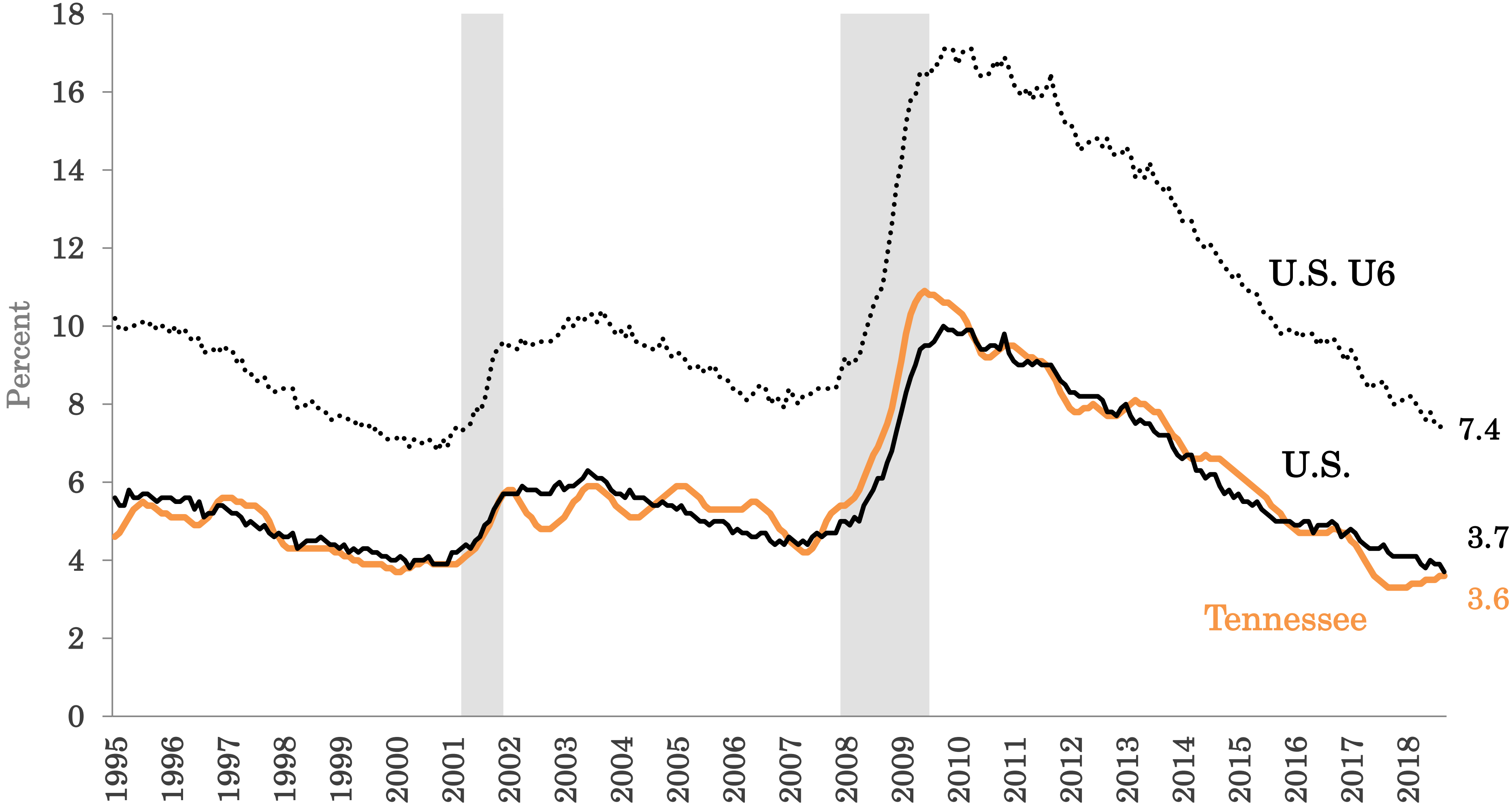
Source: U.S. Bureau of the Census, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

U.S. Unemployment Rate



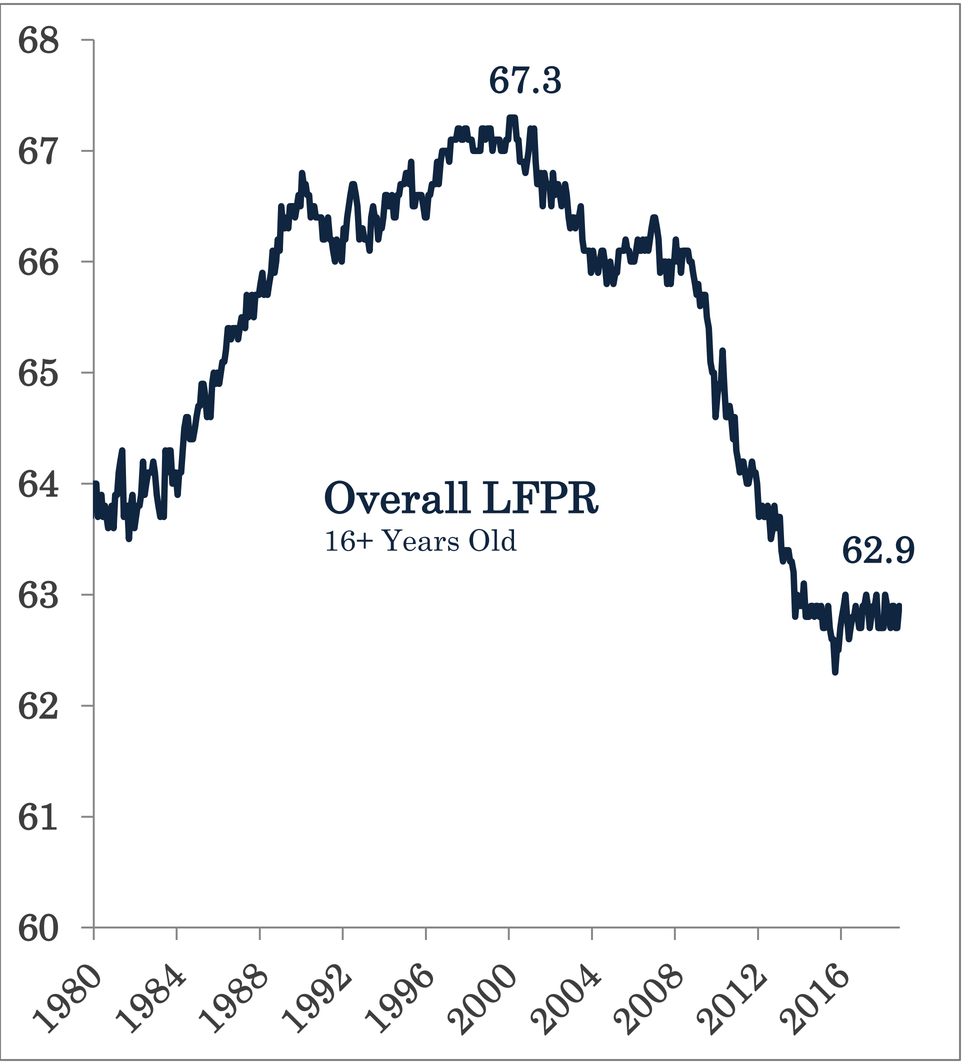
Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis; Wells Fargo, retrieved from wellsfargo.com November 18, 2018.

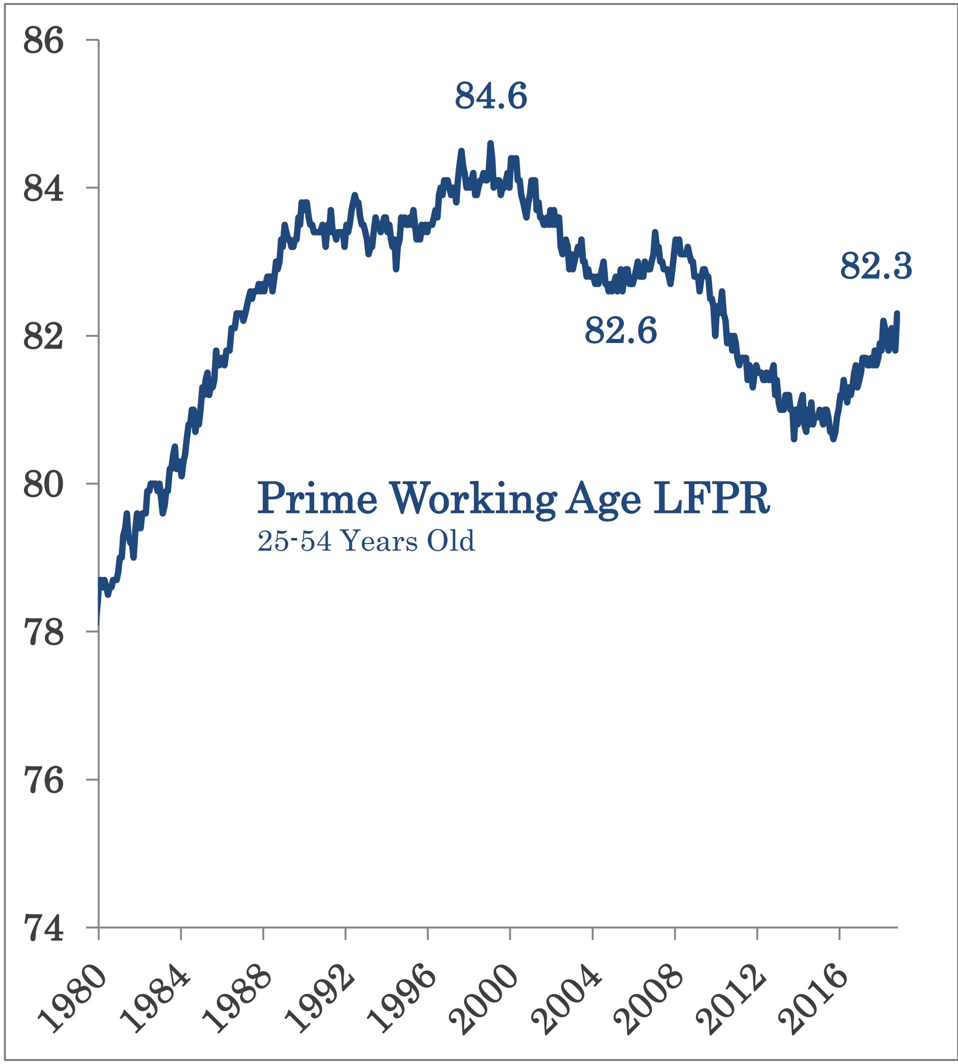
Unemployment Rates



Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

Labor Force Participation Rates

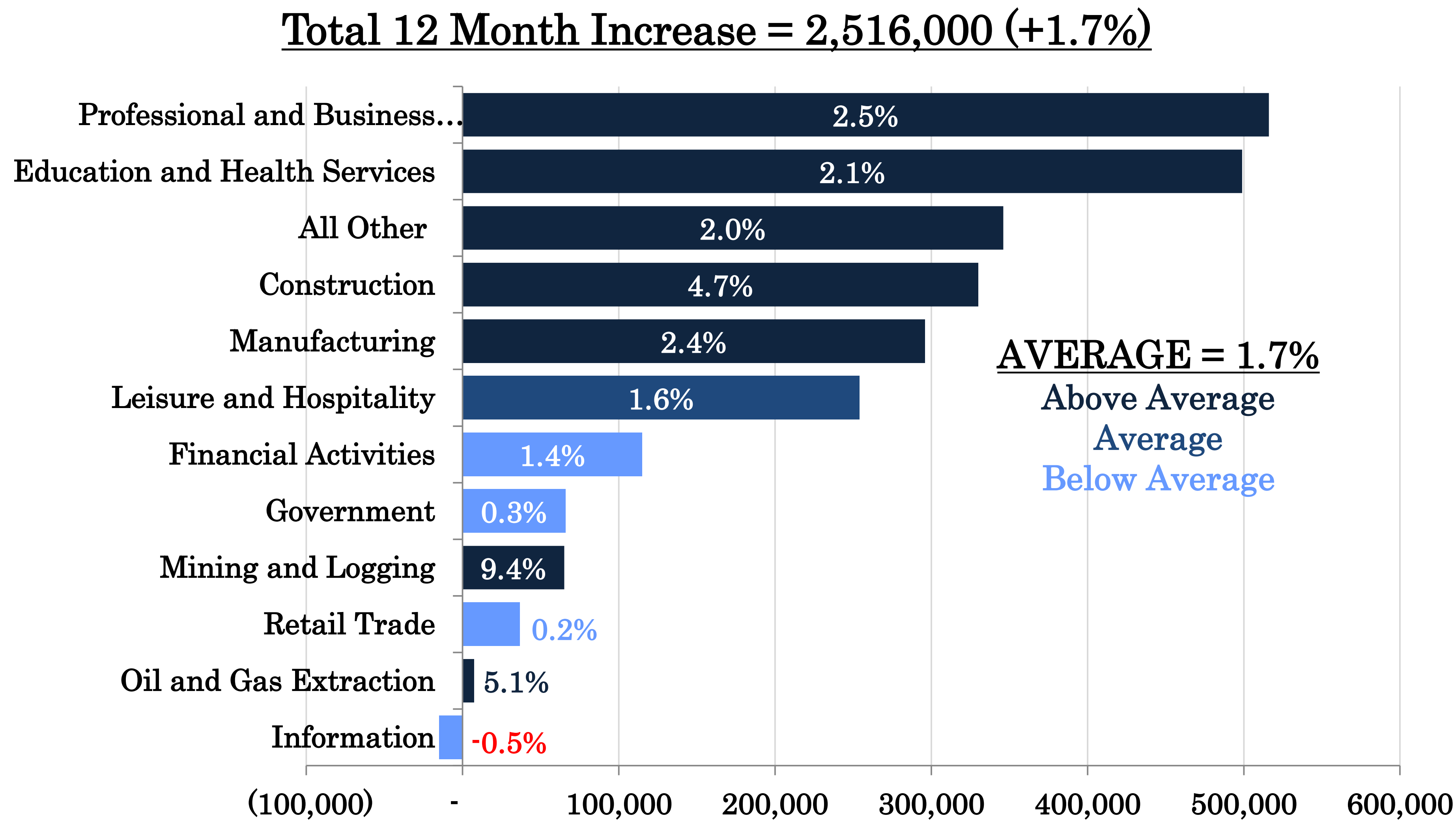




Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

U.S. Job Growth

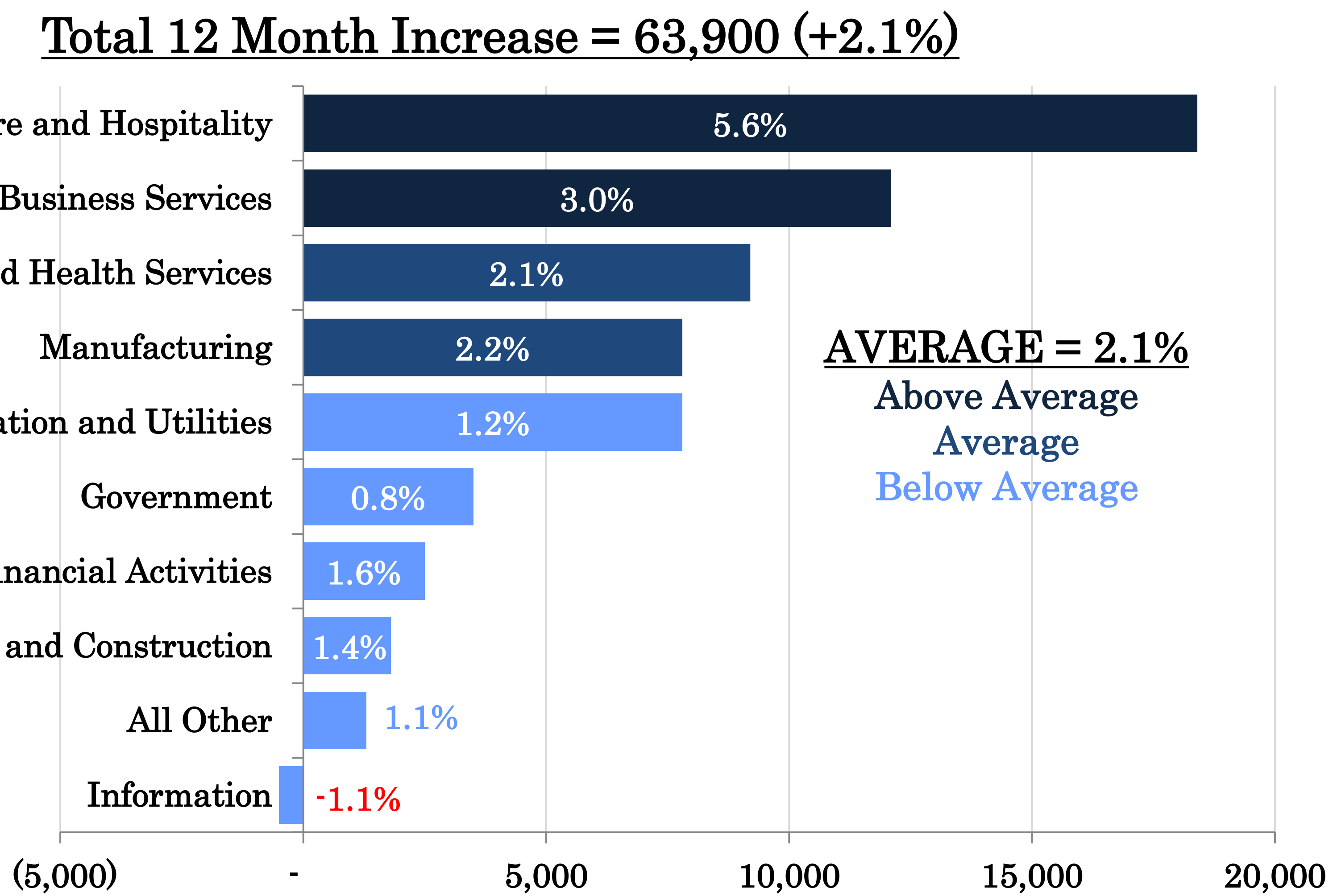
October 2018 vs. October 2017



Source: U.S. Bureau of Labor Statistics, November 12, 2018.

Tennessee Job Growth

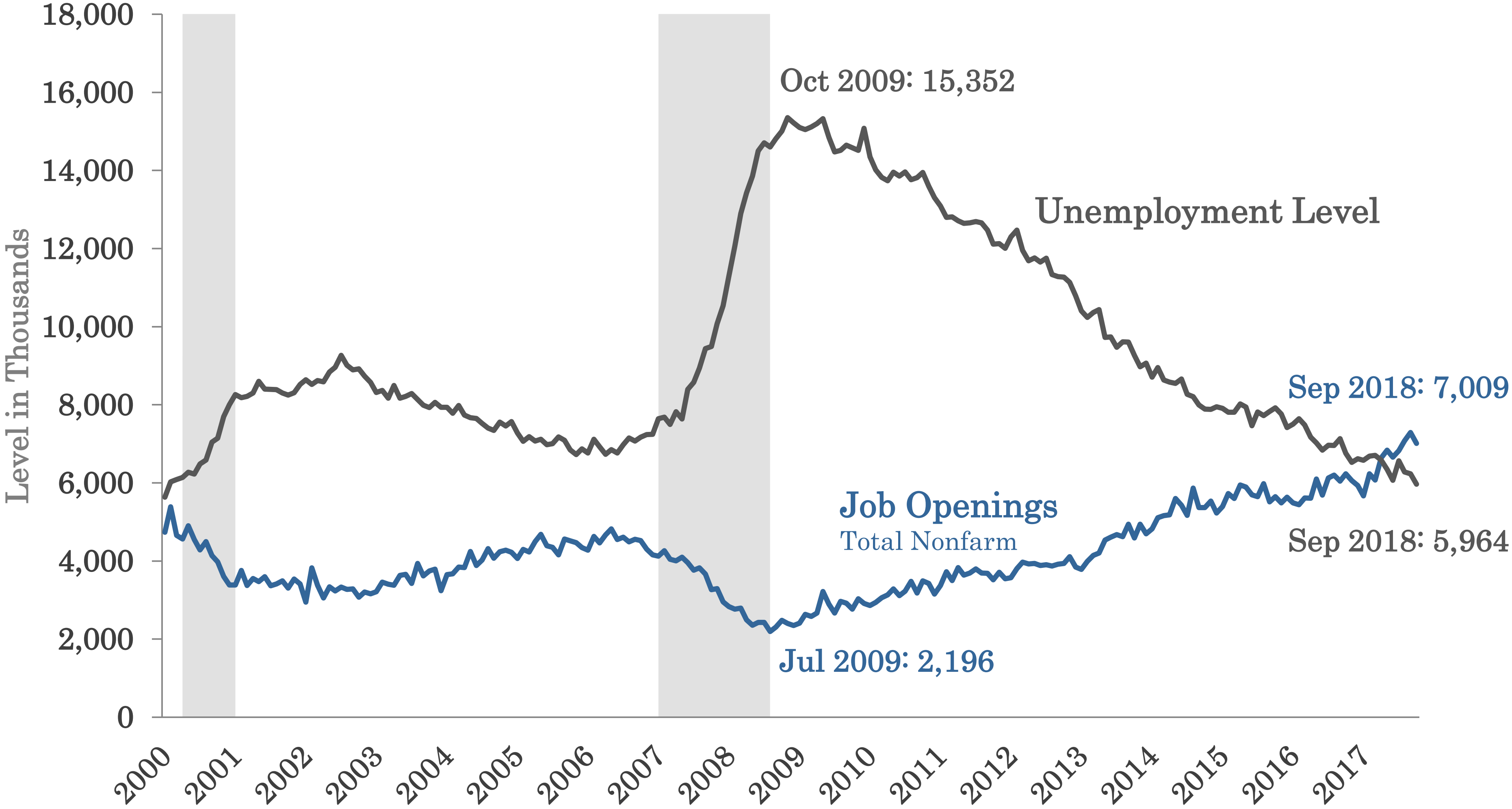
September 2018 vs. September 2017



Source: U.S. Bureau of Labor Statistics, November 12, 2018.

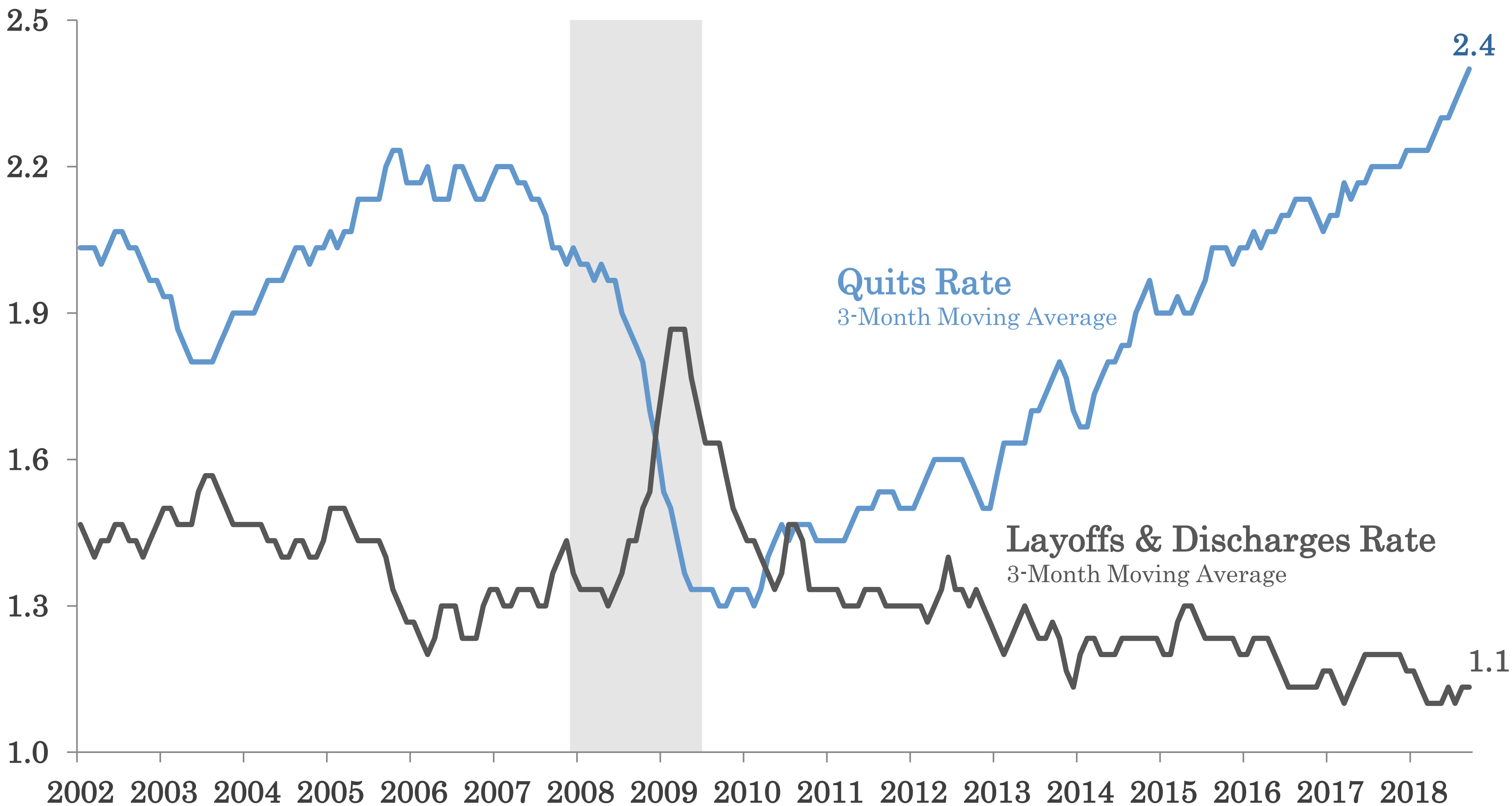
Job Openings & Unemployment

Monthly, SA



Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

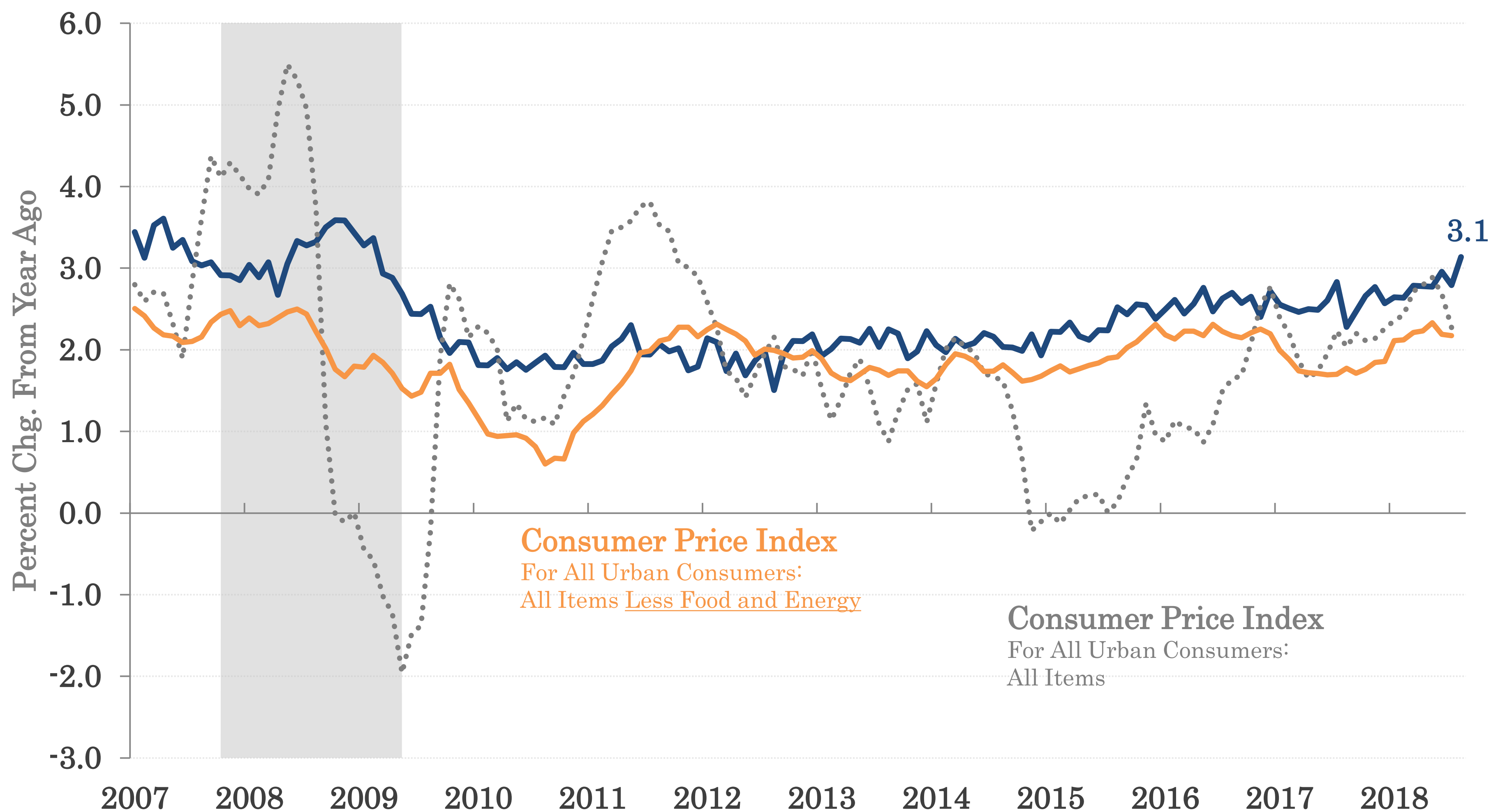
Quits, Layoffs & Discharges



Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

Earnings & Inflation

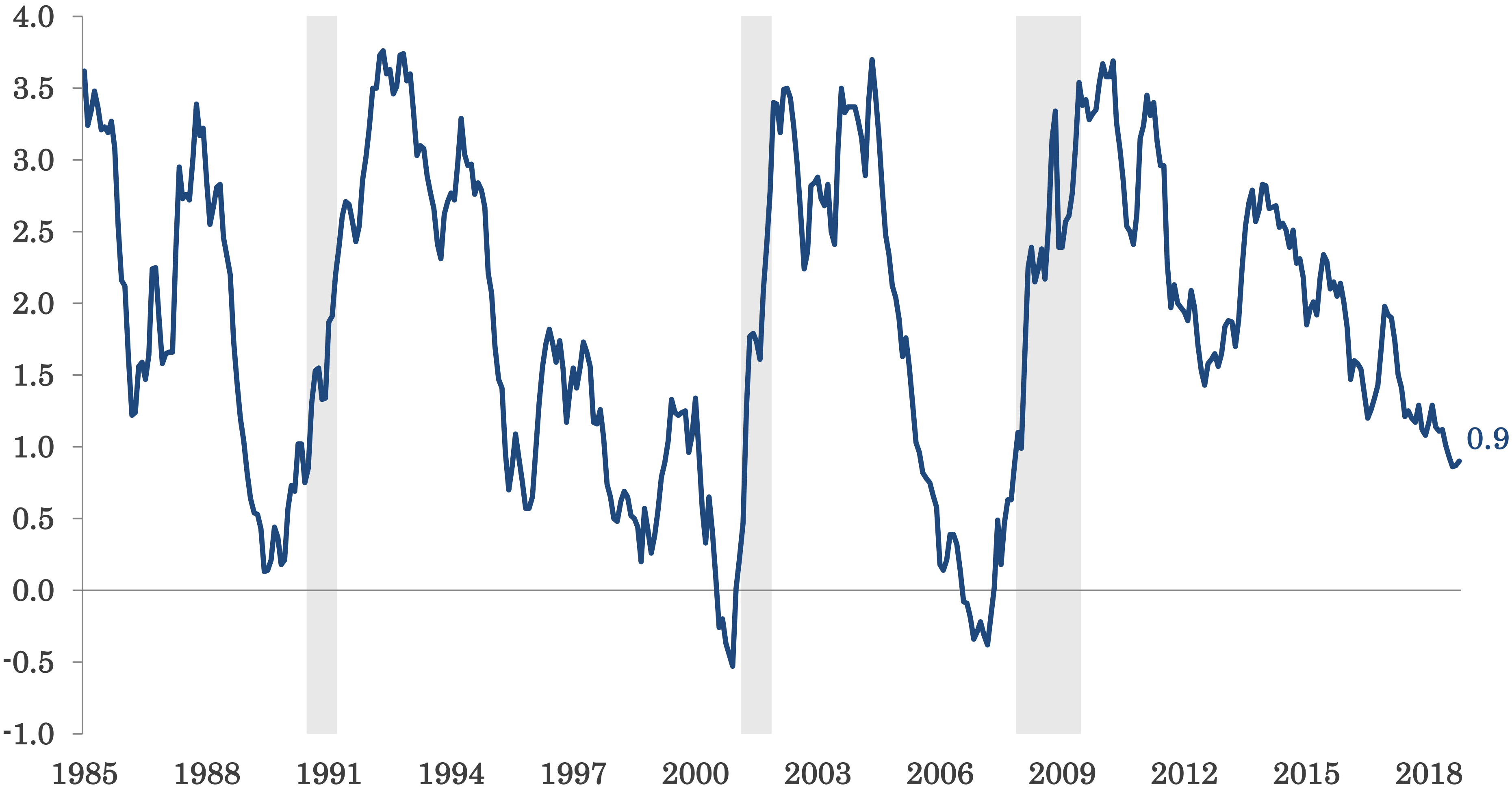
Monthly, SA



Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis , retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

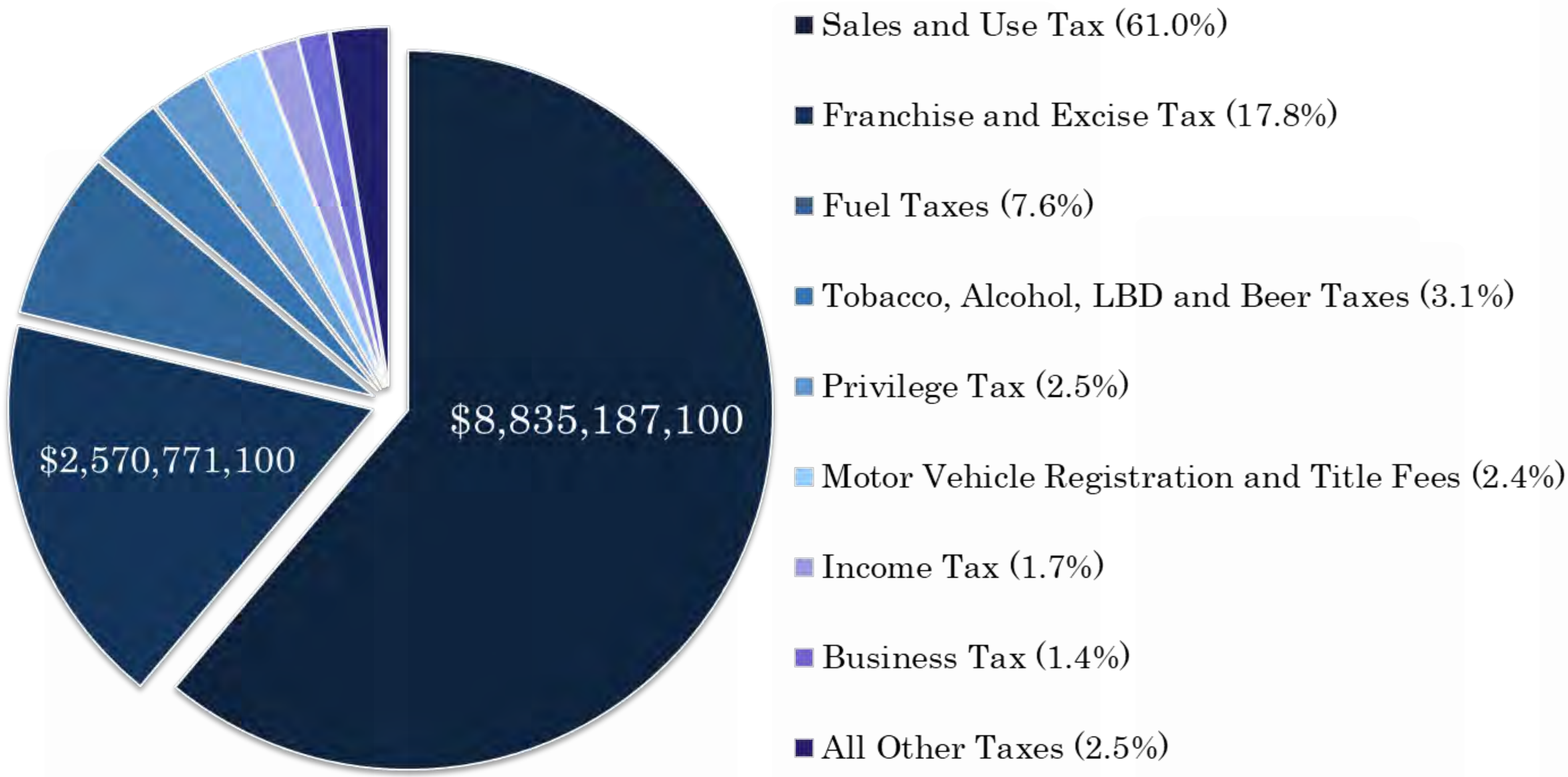
The Yield Spread

10-Year Treasury Rate Less 3-Month Treasury Bill



Source: Board of Governors of the Federal Reserve System, retrieved from FRED, Federal Reserve Bank of St. Louis, November 8, 2018.

Revenue by Tax Source



FY17-18 Accrual Collections: $14,482,022,700

Legislative Impact

REVENUE SOURCE	ACTUAL CASH COLLECTIONS FY17-18	ESTIMATED LEGISLATIVE IMPACT ON FY18-19 vs. FY17-18 CASH COLLECTIONS	ESTIMATED LEGISLATIVE IMPACT ON FY19-20 vs. FY17-18 CASH COLLECTIONS
SALES AND USE TAX	$8,939,488,300	($4,013,000)	($4,505,900)
GASOLINE TAX	$808,198,900	$34,220,000	$68,440,000
MOTOR FUEL TAX	$223,295,800	$32,250,800	$64,615,200
GASOLINE INSPECTION TAX	$68,951,200	$0	$0
MOTOR VEHICLE REGISTRATION TAX	$330,962,500	($332,900)	($332,900)
INCOME TAX	$246,256,600	($55,470,000)	($110,846,700)
PRIVILEGE TAX	$417,291,500	($577,700)	($1,527,700)
GROSS RECEIPTS TAX - TVA	$343,305,300	$0	$0
GROSS RECEIPTS TAX - OTHER	$24,806,600	$0	$0
BEER TAX	$17,509,300	$0	$0
ALCOHOLIC BEVERAGE TAX	$68,255,200	$911,000	$1,105,400
FRANCHISE AND EXCISE TAX	$2,547,666,300	($22,185,300)	($24,979,400)
INHERITANCE TAX	($78,200)	Phased Out	Phased Out
TOBACCO TAX	$248,781,400	$0	$0
MOTOR VEHICLE TITLE FEES	$25,194,900	$0	$0
MIXED DRINK TAX	$119,158,000	$0	$0
BUSINESS TAX	$187,927,500	$3,229,000	$3,690,800
SEVERANCE TAX	$1,022,300	$0	$0
AMUSEMENT TAX	$313,500	$0	$0
UNAUTHORIZED SUBSTANCE TAX	$100	$0	$0
TOTAL REVENUE	**$14,618,307,000**	**($11,968,100)**	**($4,341,200)**

FY18-19 & FY19-20 Estimates

REVENUE SOURCE	ACTUAL ACCRUED COLLECTIONS FY17-18	FRC STAFF TAX REVENUE ESTIMATES FY18-19	PERCENT INCREASE OVER FY17-18	FRC STAFF TAX REVENUE ESTIMATES FY19-20	PERCENT INCREASE OVER FY18-19
SALES AND USE TAX - LESS EARMARKED*	$8,835,187,100	$9,218,000,000	4.33%	$9,568,000,000	3.80%
GASOLINE TAX	$807,686,700	$855,000,000	5.86%	$915,000,000	7.02%
MOTOR FUEL TAX	$222,690,400	$262,000,000	17.65%	$302,000,000	15.27%
GASOLINE INSPECTION TAX	$68,964,800	$70,300,000	1.94%	$71,500,000	1.71%
MOTOR VEHICLE REGISTRATION TAX	$327,417,400	$352,000,000	7.51%	$364,000,000	3.41%
INCOME TAX	$245,979,600	$170,000,000	-30.89%	$125,000,000	-26.47%
PRIVILEGE TAX - LESS EARMARKED**	$360,069,900	$393,000,000	9.15%	$412,000,000	4.83%
GROSS RECEIPTS TAX - TVA	$343,562,100	$360,300,000	4.87%	$362,100,000	0.50%
GROSS RECEIPTS TAX - OTHER	$24,809,400	$29,000,000	16.89%	$29,000,000	0.00%
BEER TAX	$16,663,400	$17,900,000	7.42%	$18,000,000	0.56%
ALCOHOLIC BEVERAGE TAX	$66,676,800	$71,400,000	7.08%	$74,500,000	4.34%
FRANCHISE AND EXCISE TAX	$2,570,771,100	$2,562,000,000	-0.34%	$2,550,000,000	-0.47%
INHERITANCE TAX	($731,900)	$0	-100.00%	$0	N/A
TOBACCO TAX	$248,160,900	$243,000,000	-2.08%	$238,700,000	-1.77%
MOTOR VEHICLE TITLE FEES	$25,194,900	$26,300,000	4.39%	$27,300,000	3.80%
MIXED DRINK TAX	$119,340,900	$133,500,000	11.86%	$147,400,000	10.41%
BUSINESS TAX	$198,268,600	$202,000,000	1.88%	$215,000,000	6.44%
SEVERANCE TAX	$1,022,000	$1,100,000	7.63%	$1,100,000	0.00%
AMUSEMENT TAX	$288,500	$310,000	7.45%	$300,000	-3.23%
UNAUTHORIZED SUBSTANCE TAX	$100	$0	-100.00%	$0	N/A
TOTAL REVENUE	**$14,482,022,700**	**$14,967,110,000**	**3.35%**	**$15,420,900,000**	**3.03%**

*Sales and Use Tax has been reduced by $118.1 million in FY17-18 and $112.0 million in FY18-19 and FY19-20 for the earmarked portion of the tax.

**Privilege Tax has been reduced by $56.5 million in FY17-18 and $52.0 million in FY18-19 and FY19-20 for the earmarked portion of the tax.

FY18-19: All Funds and GF

REVENUE SOURCE	ALL FUNDS FY18-19	GENERAL FUND FY18-19
SALES AND USE TAX	$9,218,000,000	$8,661,887,000
GASOLINE TAX	$855,000,000	$14,200,000
MOTOR FUEL TAX	$262,000,000	$3,710,000
GASOLINE INSPECTION TAX	$70,300,000	$20,706,000
MOTOR VEHICLE REGISTRATION TAX	$352,000,000	$57,474,000
INCOME TAX	$170,000,000	$111,754,000
PRIVILEGE TAX	$393,000,000	$387,093,000
GROSS RECEIPTS TAX – TVA	$360,300,000	$198,242,000
GROSS RECEIPTS TAX – OTHER	$29,000,000	$23,914,000
BEER TAX	$17,900,000	$11,966,000
ALCOHOLIC BEVERAGE TAX	$71,400,000	$59,065,000
FRANCHISE AND EXCISE TAX	$2,562,000,000	$2,318,400,000
INHERITANCE TAX	$0	$0
TOBACCO TAX	$243,000,000	$243,000,000
MOTOR VEHICLE TITLE FEES	$26,300,000	$23,600,000
MIXED DRINK TAX	$133,500,000	$66,750,000
BUSINESS TAX	$202,000,000	$202,000,000
SEVERANCE TAX	$1,100,000	$300,000
AMUSEMENT TAX	$310,000	$310,000
UNAUTHORIZED SUBSTANCE TAX	$0	$0
TOTAL REVENUE	**$14,967,110,000**	**$12,404,371,000**

FRC Estimates vs. FY17-18 and Current Budgeted Estimates

	ACTUAL FY17-18 ACCRUALS	CURRENT BUDGETED ESTIMATES FOR FY18-19	FRC ESTIMATES FOR FY18-19	INCREASE/ (DECREASE) OVER FY17-18	INCREASE/ (DECREASE) OVER CURRENT BUDGETED ESTIMATES
SALES AND USE*	$8,835,187,100	$9,025,500,000	$9,218,000,000	$382,812,900	$192,500,000
FRANCHISE AND EXCISE	$2,570,771,100	$2,523,900,000	$2,562,000,000	($8,771,100)	$38,100,000
ALL FUNDS	$14,482,022,700	$14,616,300,000	$14,967,110,000	$485,087,300	$350,810,000
GENERAL FUND	$12,023,596,600	$12,124,700,000	$12,404,371,000	$380,774,400	$279,671,000

*Sales and Use tax has been reduced by $118.1 million in FY17-18 and $112.0 million in FY18-19 for the earmarked portion of the tax.

FY19-20: All Funds and GF

REVENUE SOURCE	ALL FUNDS FY19-20	GENERAL FUND FY19-20
SALES AND USE TAX	$9,568,000,000	$8,990,771,000
GASOLINE TAX	$915,000,000	$15,196,000
MOTOR FUEL TAX	$302,000,000	$4,277,000
GASOLINE INSPECTION TAX	$71,500,000	$21,060,000
MOTOR VEHICLE REGISTRATION TAX	$364,000,000	$59,433,000
INCOME TAX	$125,000,000	$82,172,000
PRIVILEGE TAX	$412,000,000	$405,808,000
GROSS RECEIPTS TAX – TVA	$362,100,000	$199,233,000
GROSS RECEIPTS TAX – OTHER	$29,000,000	$23,914,000
BEER TAX	$18,000,000	$12,033,000
ALCOHOLIC BEVERAGE TAX	$74,500,000	$61,630,000
FRANCHISE AND EXCISE TAX	$2,550,000,000	$2,306,400,000
INHERITANCE TAX	$0	$0
TOBACCO TAX	$238,700,000	$238,700,000
MOTOR VEHICLE TITLE FEES	$27,300,000	$24,600,000
MIXED DRINK TAX	$147,400,000	$73,700,000
BUSINESS TAX	$215,000,000	$215,000,000
SEVERANCE TAX	$1,100,000	$300,000
AMUSEMENT TAX	$300,000	$300,000
UNAUTHORIZED SUBSTANCE TAX	$0	$0
TOTAL REVENUE	**$15,420,900,000**	**$12,734,527,000**

Thank You

Fiscal Review Committee Staff