



The Tennessee State Budget

Tennessee is Recognized as one of the Best Managed States in the US

Only one of 13 states to have a AAA Rating by all 3 Bond Rating Agencies

- Budget is always balanced
- Budget is structurally balanced
- Use conservative budgeting assumptions
- Maintain strong reserves
- Fully fund annual pension costs (since '72)
- Addressing retiree Health Insurance Liabilities
- Low debt burden
- Pay as we go road program (Haven't issued road debt since '77)
- Actively monitor our revenues and spending
- Demonstrated ability to make tough decisions
 - 2008 Recession
 - 2014 Revenue Short Fall
 - 2020 Pandemic
- Use group approach to revenue forecasting
- Avoid using budget gimmicks such as
 - Delaying effective dates
 - Using “triggers”: ‘if this, then that’
- Discourage use of dedicated / earmarked revenues
- Capital Maintenance – provide recurring funds for maintenance – less dependent on One-time funding/improve planning

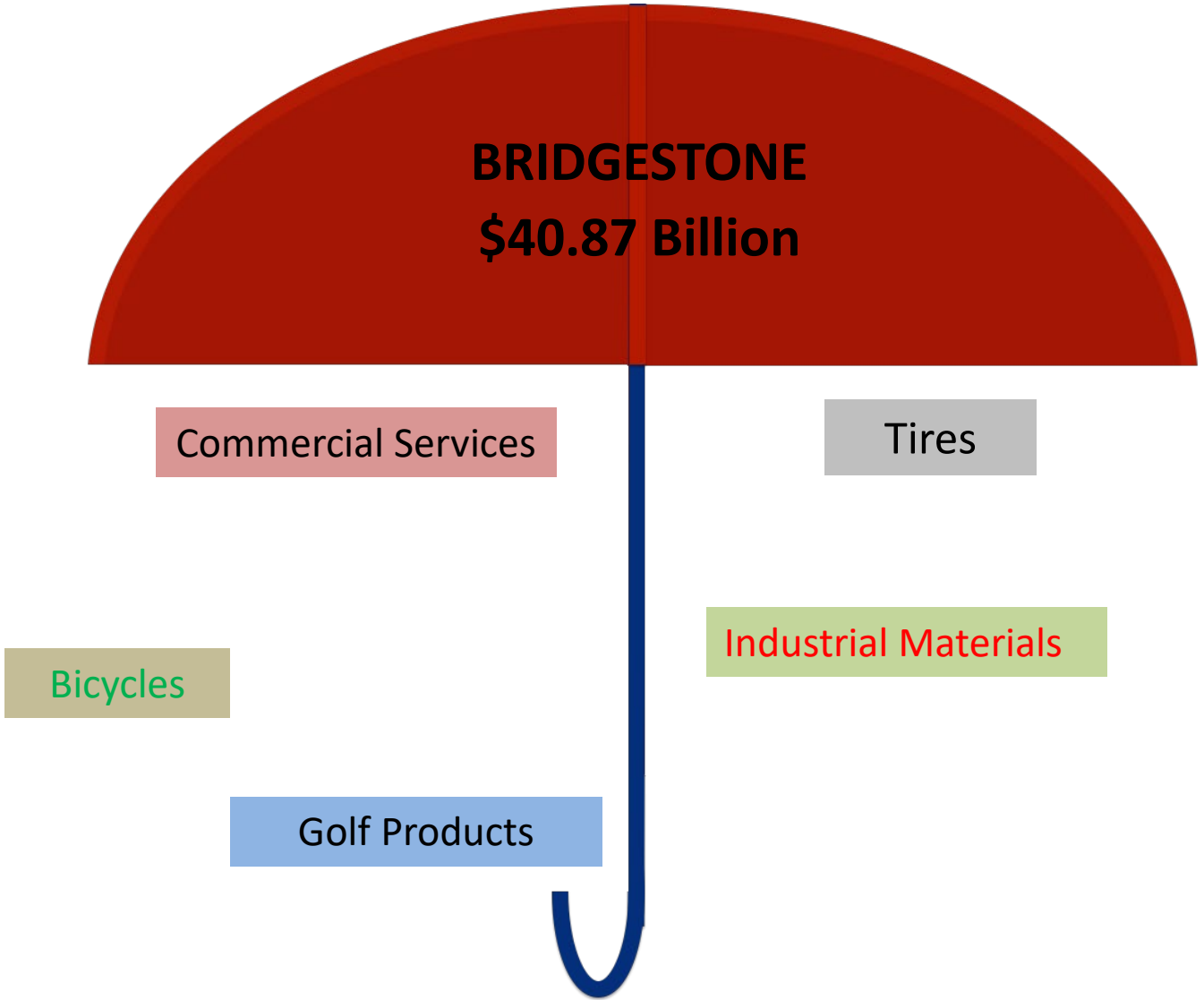
USNews: Ranked #1 for Fiscal Stability – 2019 and 2020

THE BUDGET

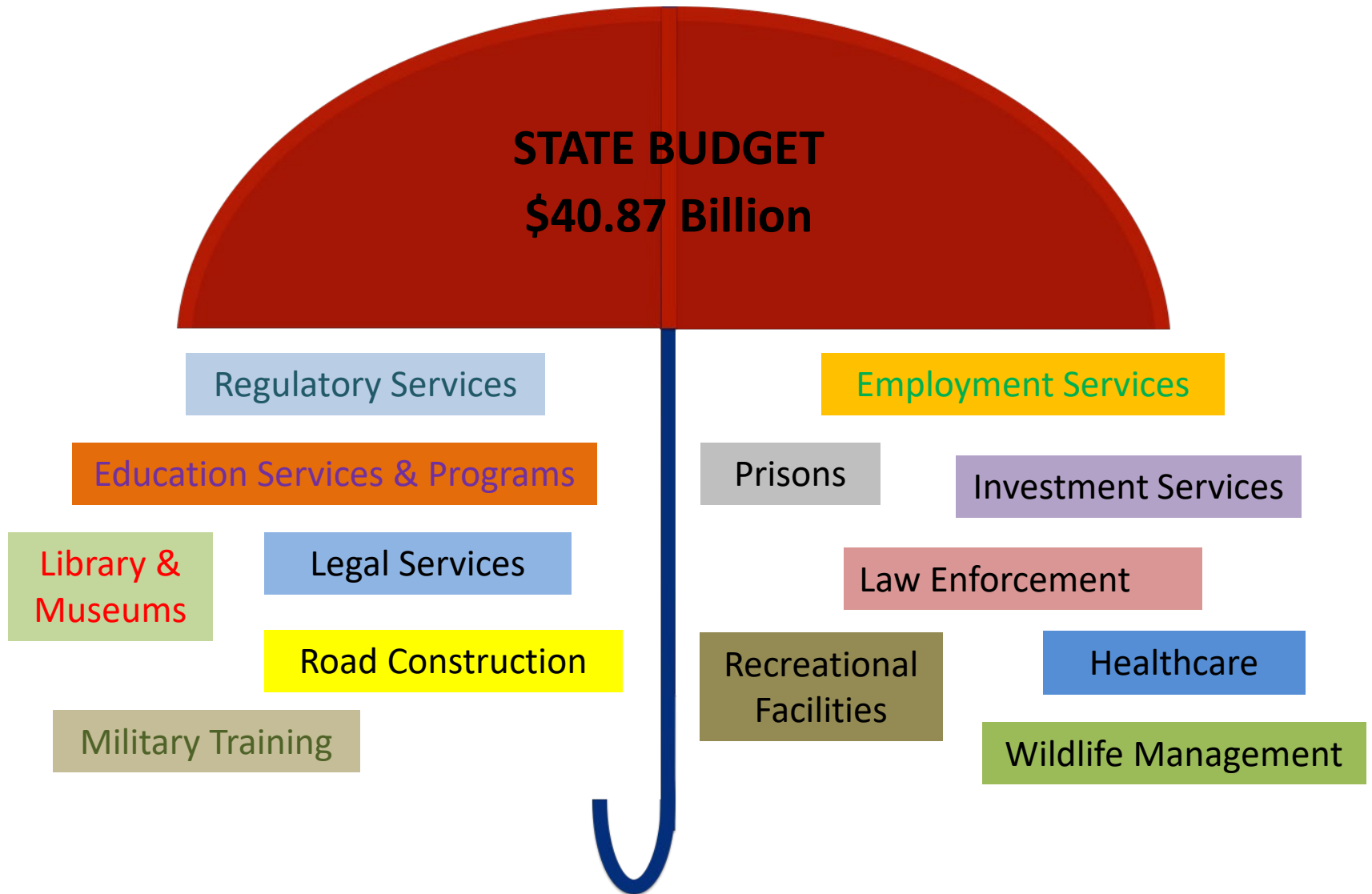
Budget Total

- \$40.87 Billion
- Of which \$18.9B is State, \$15.6B is Federal and \$6.3B is Other
- Budget supports 50 Departments and Agencies
- Complicated by:
 - Fund Type (General vs Highway vs Local)
 - Dedicated Fees and Revenues
 - Legal restrictions
 - Governmental branches
 - Mission Differentiation

THE BUDGET

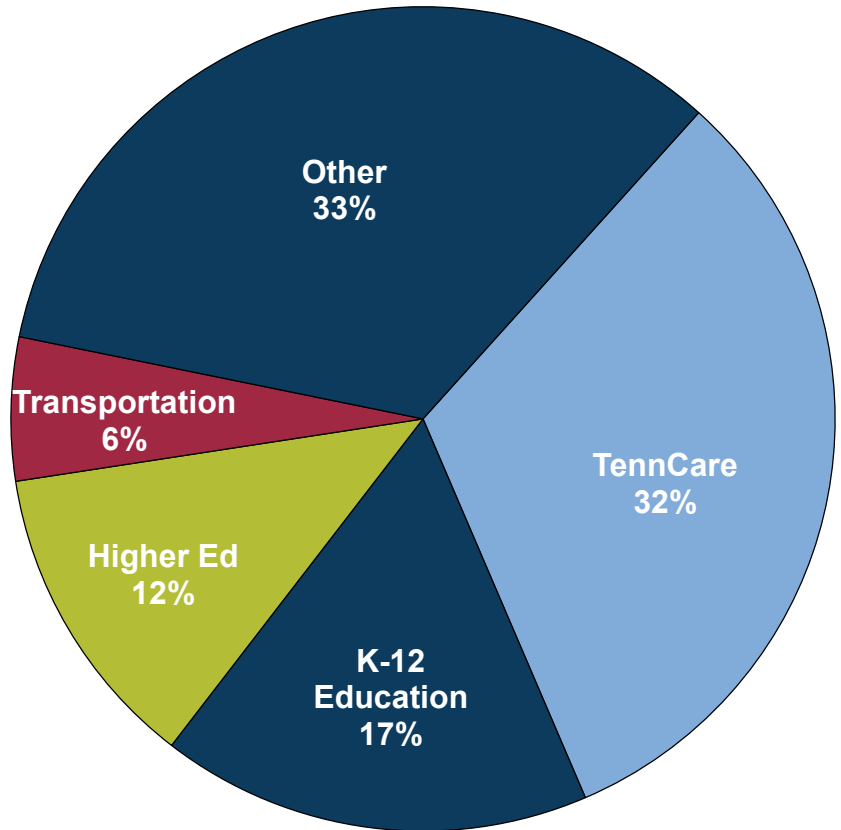


THE BUDGET



FY21 Budget At-A-Glance

TennCare	\$ 12.93B
K-12 Education	6.92B
Higher Ed	4.92B
Transportation	2.28B
Other	13.82B
TOTAL	\$40.87B

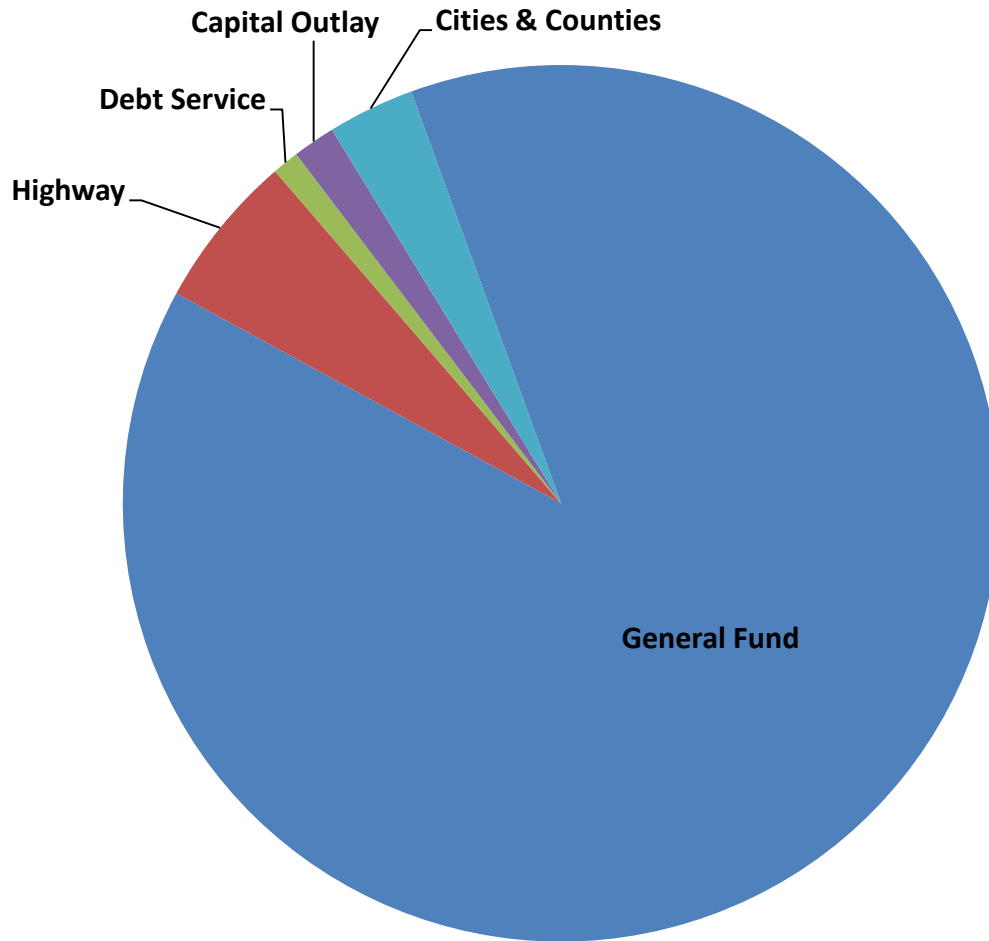


Total includes federal funds.

Excluding federal funds, TennCare is 27.9% of state taxes.

THE BUDGET

The Budget by Fund



5-Year Revenue Summary

FY17 through FY21

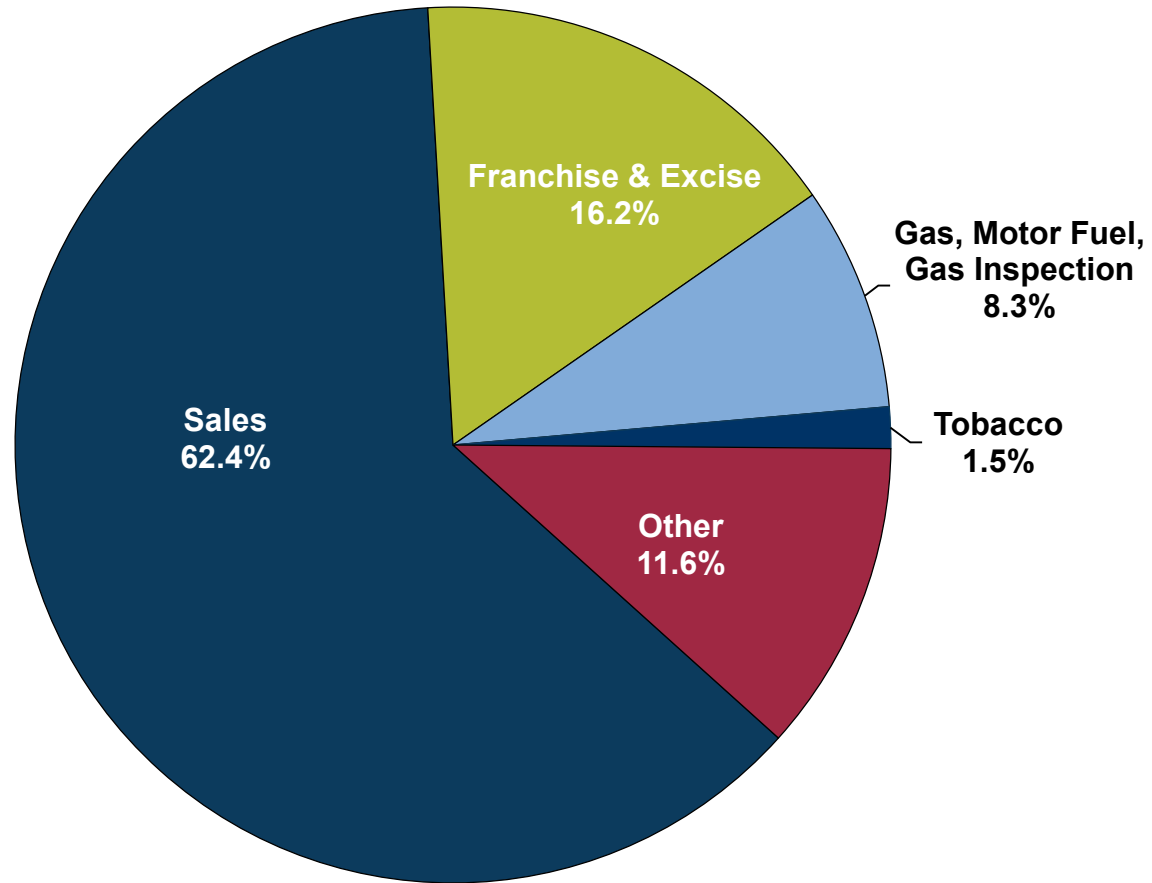
(Expressed in Billions)

Source	Actual FY17	Actual FY18	Actual FY19	Est. FY20	Est. FY21	Est. Growth FY20-21	Ann. Avg. Growth FY17-19
Taxes - DoR	\$13.98	\$14.48	\$15.27	\$15.14	\$14.72	(2.8%)	4.5%
Federal Funds	12.25	12.61	12.48	14.25	15.28	7.2%	0.9%
Departmental Revenue	3.82	3.73	4.03	4.04	4.03	(0.2%)	2.7%
Other Taxes & Misc. Rev.	1.68	1.93	1.69	3.66	3.84	4.9%	0.3%
Tuition	1.81	1.87	1.93	1.93	1.93	0.0%	3.3%
Lottery	0.34	0.34	0.39	0.40	0.40	0.0%	7.1%
Total	\$33.88	\$34.96	\$35.79	\$39.42	\$40.20	2.0%	2.8%

Note: Total excludes \$124M in Bonds in FY 2020 and \$345.7M in FY 2021.

TAXES

FY21 Tax Collections At-A-Glance



Tax Collections

FY17 through FY21

(Expressed in Billions)

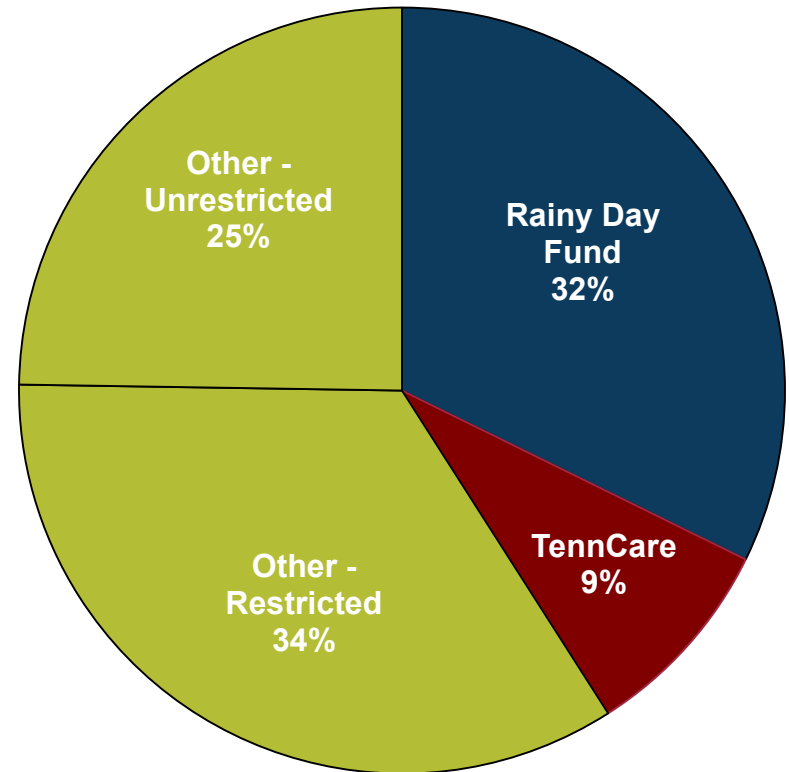
Source	Actual FY17	Actual FY18	Actual FY19	Est. FY20	Est. FY21	Est. Growth FY20-21	Ann. Avg. Growth FY17-19
Sales	\$ 8.56	\$ 8.84	\$ 9.34	\$ 9.30	\$ 9.19	(1.2%)	4.5%
Franchise & Excise	2.62	2.57	2.75	2.63	2.39	(9.1%)	2.5%
Gas, Motor Fuel, Gas Inspect.	0.92	1.10	1.17	1.24	1.22	(1.6%)	12.8%
Motor Vehicle Registration	0.28	0.33	0.34	0.34	0.34	0.0%	10.2%
Privilege	0.34	0.36	0.38	0.37	0.39	5.4%	5.7%
Gross Receipts	0.37	0.36	0.39	0.40	0.40	0.0%	2.7%
Other	0.89	0.92	0.90	0.86	0.79	(8.1%)	0.6%
Total	\$13.98	\$14.48	\$15.27	\$15.14	\$14.72	(2.8%)	4.5%

Average tax revenue growth is 4.5% with 4.0% growth rate for Sales and F&E taxes combined

RESERVES

FY21 Reserves At-A-Glance

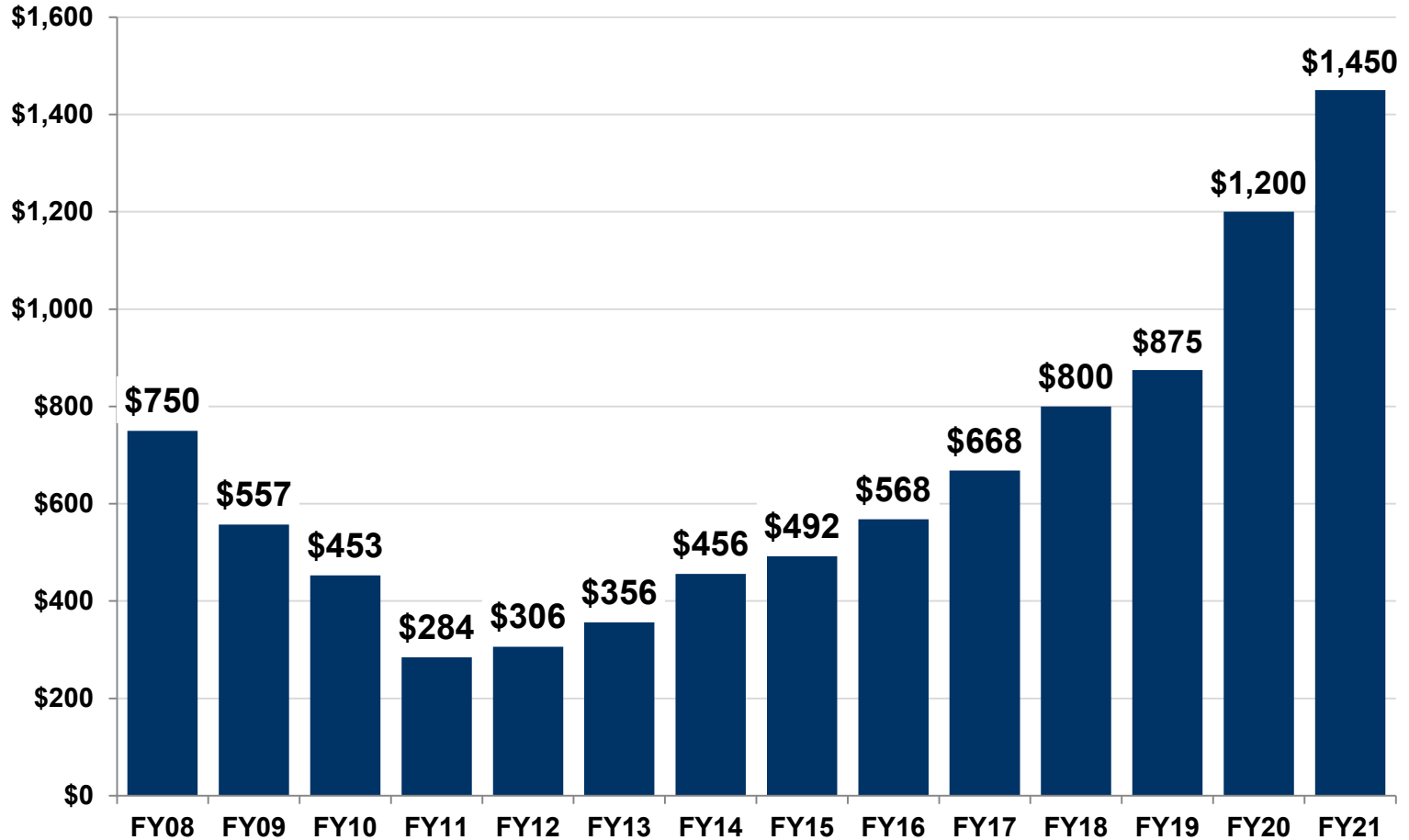
Rainy Day Fund	\$ 1,450M
TennCare Reserve	390M
Other Reserves	2,654M
TOTAL	\$ 4.494B



TennCare reserve equal to 9.5% of state funds in TennCare program

Total reserves equal 11.1% of total expenditures and 23.7% of state appropriations

FY21 Rainy Day Fund – Highest Balance Ever



The Rainy Day Fund is equal to 9.8% of General Fund Revenue

Key Provisions – The Rainy Day Fund

Official Name: Reserve for Revenue Fluctuations

- Governor is required by law to allocate 10% of the estimated growth in state tax revenues of the General Fund to the Rainy Day Fund.
- The Governor is required to do this every year until the Rainy Day Fund equals 8% of the total tax revenues of the General Fund.
- Currently, the Rainy Day Fund stands at \$1.45B

How can the Rainy Day Fund Be Used?

- To offset shortfalls in budgeted state tax revenues
- To meet expenditure requirements in excess of budgeted appropriation levels

Key Provisions – State Constitution

- Only in the appropriation bill can the State authorize an expenditure
- Expenditures cannot exceed available revenue
- Cannot fund government operations with debt
- Any law requiring the expenditure of state funds shall be null and void unless an appropriation is made for the estimated first year's funding

Key Provisions – State Law

- Governor shall transmit the Budget to the General Assembly before February 1st (March 1st for new Governor)
- The Budget shall outline proposed expenditures for state government, proposed capital projects and anticipated revenues
- Governor must propose adding to the Rainy Day Fund.
- The Appropriation Bill shall not contain any provision of general legislation
- Governor may amend or supplement his initial budget at any time while it is before the General Assembly
(This is the Admin. Amendment)

Budget Veto Authority

State Constitution

The Governor may reduce or disapprove the sum of money appropriated by any one or more items or parts of items in any bill appropriating money, while approving other portions of the bill.

Key Provisions – Limitations on Budget Growth

The Copeland Cap

*“In no year shall the rate of growth of appropriations from state tax revenues exceed the estimated rate of growth of the state’s economy as determined by law. No appropriation in excess of this limitation shall be made **unless** the General Assembly shall, by law containing no other subject matter, set forth the dollar amount and the rate by which the limit is exceeded.”*

- The intent: Set up a process that would cause both the Governor AND the Legislature to intentionally acknowledge the fact that they were recommending/approving a budget that would grow bigger than the growth of the economy in that specific year - allowing everyone an opportunity to discuss/understand why
- Requirement was established in 1977 in an effort to balance the need for:
Budget Flexibility with Public Accountability.
- Historically, the economy grows faster than state revenues
- But because this is a year-to-year analysis, this provision is sometimes triggered

BUDGET DEVELOPMENT TIMELINE

August –

Gov. issues guidelines for Agency Budget development

October –

Agencies submit Budget Requests to Governor

November –

Governor's Budget Hearings

Funding Board: Revenue Projections

December/January –

Governor develops Budget Recommendation

Jan 30th or before -

Introduction of Governor's Budget

February to April –

Legislative Budget Hearings & Committee Work

April/June –

Update Revenue and Expenditure Projections

Budget Approved – sent to Governor

Finalize Budget Adjustments

July 1 – Fiscal Year Begins



FY20
Recapping the Past Year



What People were Saying . . .

- A recession is coming
- Expect economy to contract 24%
- No blueprint for current shock
- A lot of Uncertainty
- Unprecedented
- Expect a deep drop into recession and a slow climb out
- Recession is here
- Mother of all financial crises
- Abrupt halt could impose profound and enduring pain
- There's nothing in the Great Depression that is analogous to what we're experiencing now



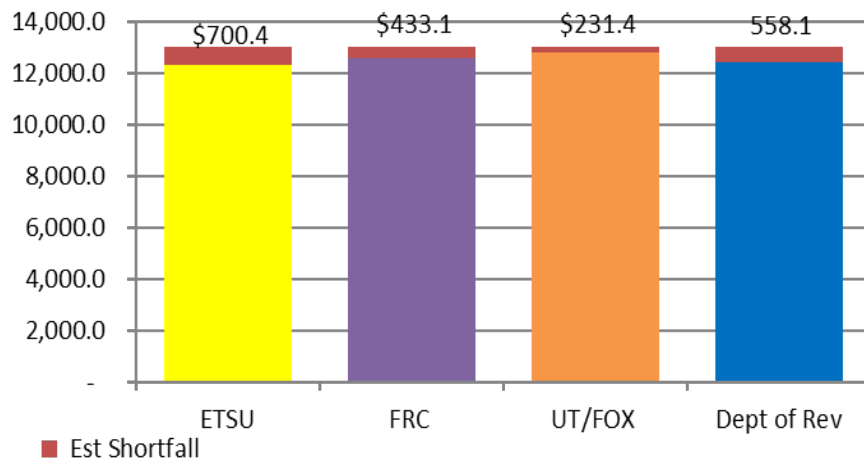
What People were Saying . . .

- Talk of a V-, U-, L- or W-shape recovery at this moment is an exercise in word salad
- The ‘Great Recession’ is here
- In a word, it’s bad
- It is clear that this quarter will be “really terribleWe just don’t know the degree of terribleness
- The speed and extent of the rebound remains deeply uncertain
- Will be as brutal as the Great Recession
- Nobody has the faintest idea of what the new normal will look like
- Recovery could take years

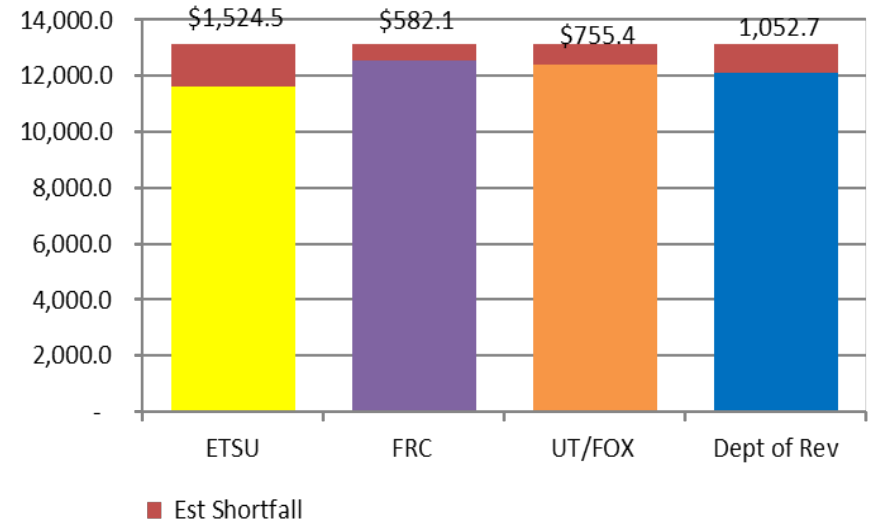
Revenue Projections – COVID Impact

May 2020

FY20 Tax Revenue Shortfall Forecasts



FY21 Tax Revenue Shortfall Forecasts



The Budget Plan

To Close FY20

- Reduced Spending - Freeze on Hiring and Purchasing
- Plan to Close the expected year-end deficit with:
 - unbudgeted non-tax revenues
 - agency underspending and
 - reserves

The Budget Plan

To Address the Projected \$1 Billion Deficit in FY21

Use Cash, Reserves and Reductions to become
Structurally Balanced within three years

Basic Assumption:

- The State cannot implement all of the reductions necessary in one fiscal year and continue to provide the important services to its citizens.
- Recognize the state has over \$4 Billion in reserves that can help mitigate immediate and harsh cuts – allowing time to develop a thoughtful approach to reducing the size of state government

The Budget Plan

To Address the Projected \$1 Billion Deficit in FY21

Immediate Actions

- Pulled back from spending in the current budget
- Looked for more reductions and efficiencies
- Took action to strengthen our Cash Position
 - Review 'Non-Rainy Day' Reserves
 - Review Capital Budget
- Planned for a deficit (FY21)

2020 Budget Action – in one slide



Federal COVID Funds

Federal COVID Funds - TENNESSEE PROGRAMS

Emergency Food Program (TEFAP)	Family Violence Prevention and Services Formula Grant	UI Supplemental Budget
Congregate Meals and Home Delivered Meals	Coronavirus Relief Fund	UI Emergency Relief - Employer Reimbursement
Home and Community-Based Supportive Services	Hospital Preparedness Program	Waiting Week Funds
Family Caregivers	Grants to states, localities, and tribes - Health	Emergency Response Activities
Aging and Disability Resource Centers	Emerging Infections Program	Suicide Prevention Programs
Protection of Vulnerable Older Americans	Telehealth and Rural Health Grants	Election Security Grants
National Endowment for the Arts (NEA)	Community Health Centers	LSTA State Grants
National Endowment for the Arts (NEA) - Regional	Ryan White HIV/AIDS	Transit Infrastructure Grants - NonUrbanized Area
Child Welfare Services	Core State Violence and Injury Prevention Programs	Transit Infrastructure Grants - Growing States
Child Care and Development Block Grant	ELC - Testing	Grants-in-Aid to Airports
Community Services Block Grant	Education Stabilization Fund - Higher Education	Grants-in-Aid to Airports via Block Grant
SNAP Contingency Reserve	HBCU and PBI Funds	Disaster Relief Fund
Child and Adult Food Care Program	SIP Funds	Emergency Management Performance Grants
Summer Food Program	National Science Foundation RAPID Grants	Enhanced FMAP
Community Development Block Grant	UI administration	100% payment Covid-19 testing costs - TennCare
Education Stabilization Fund - K12 (ESSER Grant)	Dislocated Workers Assistance	Low Income Home Energy Assistance Program
Education Stabilization Fund - Governor's Fund	UI Benefits - PUA	Emergency Solutions Grants
Child nutrition	UI Benefits - FPUC	Tenant-Based Rental Assistance
Byrne Justice Assistance Grants (JAG)	UI Benefits - PEUC	Armories Maintenance

Federal COVID Funds

Federal COVID Funds - TENNESSEE

(Millions)

AGRICULTURE	\$	5.2
AGING		22.2
ARTS COMMISSION		0.5
CHILDRENS SERVICES		5.4
HUMAN SERVICES		127.5
ECD		34.8
EDUCATION		398.6
FINANCE & ADMINISTRATION		2,378.1
HEALTH		195.1
HIGHER EDUCATION		192.7
LABOR		3,222.7
MENTAL HEALTH		2.8
MILITARY		1.2
SECRETARY OF STATE		8.6
DEPARTMENT OF TRANSPORTATION		70.1
TENNESSEE EMERGENCY MANAGEMENT AGENCY		102.2
TENNCARE		372.0
THDA		62.2
TOTAL - TENNESSEE		<u><u>\$ 7,202.0</u></u>

* Does not include Disaster Relief Funds

Coronavirus Relief Fund

PROGRAM	ALLOCATION	
Unemployment Insurance	\$939,000,000	
TBRP Small Business Relief	\$205,000,000	Program closed on 9/30
SERG (Business Relief)	\$125,000,000	
Community CARES	\$154,500,000	
Local Government	\$113,000,000	(Primarily requests for emergency, health, and safety payroll)
K-12 Technology & Reopening	\$75,000,000	
Higher Education Technology	\$21,450,000	32 post-secondary institution projects
Emergency Broadband Fund	\$61,113,000	
Agriculture and Forestry	\$55,382,867	
Tourism and DMO Support	\$25,000,000	
L&W AJC & Re-Employment	\$8,500,000	Services for dislocated workers
State Expenses	\$383,300,000	Public Health Response, TEMA and Direct Expenses

UNDERSTANDING THE BUDGET

The Budget Bills

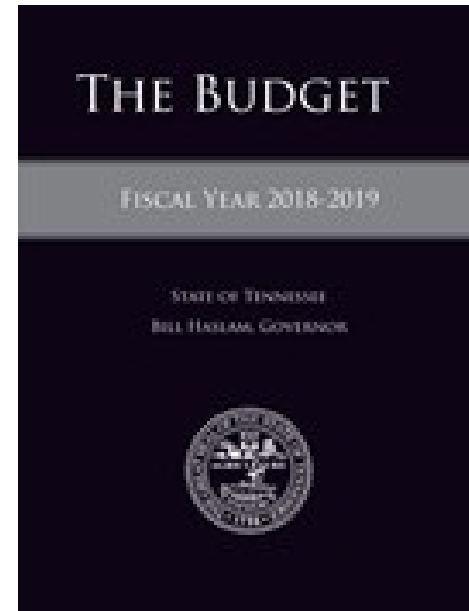
(The only bill(s) the Legislature must pass each Session)

Appropriation Bill

Bond Bill

Implementation Bill

Other Enabling Legislation



HOW DO 'THINGS' GET FUNDED IN THE BUDGET?

Legislation and Funding for Program & Grants

GOVERNOR can Recommend/Add	<ol style="list-style-type: none">1) Talk with the Governor's Office/Key Staff Prior to Budget Submittal2) Talk with the Governor's Office/Key Staff prior to Governor Revising Budget
LEGISLATURE can Recommend/Add	<ol style="list-style-type: none">1) Talk with Finance Chair and Leadership2) File an amendment to the Budget (w/ Finance Committee)



Questions?