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:
  o Fund Type (General vs Highway vs Local)
  o Dedicated Fees and Revenues
  o Legal restrictions
  o Governmental branches
  o Mission Differentiation
THE BUDGET

STATE BUDGET
$40.87 Billion
FY21 Budget At-A-Glance

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TennCare</td>
<td>$12.93B</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>6.92B</td>
</tr>
<tr>
<td>Higher Ed</td>
<td>4.92B</td>
</tr>
<tr>
<td>Transportation</td>
<td>2.28B</td>
</tr>
<tr>
<td>Other</td>
<td>13.82B</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$40.87B</strong></td>
</tr>
</tbody>
</table>

Total includes federal funds.

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

The Budget by Fund

- General Fund
- Capital Outlay
- Cities & Counties
- Debt Service
- Highway

General Fund
## 5-Year Revenue Summary
### FY17 through FY21
(Expressed in Billions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes - DoR</td>
<td>$13.98</td>
<td>$14.48</td>
<td>$15.27</td>
<td>$15.14</td>
<td>$14.72</td>
<td>(2.8%)</td>
<td>4.5%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>12.25</td>
<td>12.61</td>
<td>12.48</td>
<td>14.25</td>
<td>15.28</td>
<td>7.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Departmental Revenue</td>
<td>3.82</td>
<td>3.73</td>
<td>4.03</td>
<td>4.04</td>
<td>4.03</td>
<td>(0.2%)</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other Taxes &amp; Misc. Rev.</td>
<td>1.68</td>
<td>1.93</td>
<td>1.69</td>
<td>3.66</td>
<td>3.84</td>
<td>4.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Tuition</td>
<td>1.81</td>
<td>1.87</td>
<td>1.93</td>
<td>1.93</td>
<td>1.93</td>
<td>0.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Lottery</td>
<td>0.34</td>
<td>0.34</td>
<td>0.39</td>
<td>0.40</td>
<td>0.40</td>
<td>0.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$33.88</strong></td>
<td><strong>$34.96</strong></td>
<td><strong>$35.79</strong></td>
<td><strong>$39.42</strong></td>
<td><strong>$40.20</strong></td>
<td><strong>2.0%</strong></td>
<td><strong>2.8%</strong></td>
</tr>
</tbody>
</table>

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

FY21 Tax Collections At-A-Glance

- Sales: 62.4%
- Franchise & Excise: 16.2%
- Gas, Motor Fuel, Gas Inspection: 8.3%
- Tobacco: 1.5%
- Other: 11.6%
### Tax Collections

**FY17 through FY21**

(Expressed in Billions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$ 8.56</td>
<td>$ 8.84</td>
<td>$ 9.34</td>
<td>$ 9.30</td>
<td>$ 9.19</td>
<td>(1.2%)</td>
<td>4.5%</td>
</tr>
<tr>
<td>Franchise &amp; Excise</td>
<td>2.62</td>
<td>2.57</td>
<td>2.75</td>
<td>2.63</td>
<td>2.39</td>
<td>(9.1%)</td>
<td>2.5%</td>
</tr>
<tr>
<td>Gas, Motor Fuel, Gas Inspect.</td>
<td>0.92</td>
<td>1.10</td>
<td>1.17</td>
<td>1.24</td>
<td>1.22</td>
<td>(1.6%)</td>
<td>12.8%</td>
</tr>
<tr>
<td>Motor Vehicle Registration</td>
<td>0.28</td>
<td>0.33</td>
<td>0.34</td>
<td>0.34</td>
<td>0.34</td>
<td>0.0%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Privilege</td>
<td>0.34</td>
<td>0.36</td>
<td>0.38</td>
<td>0.37</td>
<td>0.39</td>
<td>5.4%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Gross Receipts</td>
<td>0.37</td>
<td>0.36</td>
<td>0.39</td>
<td>0.40</td>
<td>0.40</td>
<td>0.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other</td>
<td>0.89</td>
<td>0.92</td>
<td>0.90</td>
<td>0.86</td>
<td>0.79</td>
<td>(8.1%)</td>
<td>0.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13.98</strong></td>
<td><strong>$14.48</strong></td>
<td><strong>$15.27</strong></td>
<td><strong>$15.14</strong></td>
<td><strong>$14.72</strong></td>
<td><strong>(2.8%)</strong></td>
<td><strong>4.5%</strong></td>
</tr>
</tbody>
</table>

Average tax revenue growth is 4.5% with 4.0% growth rate for Sales and F&E taxes combined.
FY21 Reserves At-A-Glance

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Rainy Day Fund</td>
<td>$1,450M</td>
</tr>
<tr>
<td>TennCare Reserve</td>
<td>390M</td>
</tr>
<tr>
<td>Other Reserves</td>
<td>2,654M</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$4.494B</strong></td>
</tr>
</tbody>
</table>

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
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 30thth 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 Repression’ is here
• In a word, it’s bad
• It is clear that this quarter will be “really terrible . . . . . .We 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
- ETSU: $700.4
- FRC: $433.1
- UT/FOX: $231.4
- Dept of Rev: $58.1

FY21 Tax Revenue Shortfall Forecasts
- ETSU: $1,524.5
- FRC: $582.1
- UT/FOX: $755.4
- Dept of Rev: $1,052.7
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

- July 1, 2019 Est: $12.67 Billion
- Jan 2020 Revised Est: $13.17 Billion
- March Revised Est: $13.01 Billion
- June Revised: $12.52 Billion
- FY21 Budget: $0.64 Billion

Total range: $11.60 Billion - $13.40 Billion
Federal COVID Funds

Federal COVID Funds - TENNESSEE
PROGRAMS

Emergency Food Program (TEFAP)
Congregate Meals and Home Delivered Meals
Home and Community-Based Supportive Services
Family Caregivers
Aging and Disability Resource Centers
Protection of Vulnerable Older Americans
National Endowment for the Arts (NEA)
National Endowment for the Arts (NEA) - Regional
Child Welfare Services
Child Care and Development Block Grant
Community Services Block Grant
SNAP Contingency Reserve
Child and Adult Food Care Program
Summer Food Program
Community Development Block Grant
Education Stabilization Fund - K12 (ESSER Grant)
Education Stabilization Fund - Governor's Fund
Child nutrition
Byrne Justice Assistance Grants (JAG)

Family Violence Prevention and Services Formula Grant
Coronavirus Relief Fund
Hospital Preparedness Program
Grants to states, localities, and tribes - Health
Emerging Infections Program
Telehealth and Rural Health Grants
Community Health Centers
Ryan White HIV/AIDS
Core State Violence and Injury Prevention Programs
ELC - Testing
Education Stabilization Fund - Higher Education
HBCU and PBI Funds
SIP Funds
National Science Foundation RAPID Grants
UI administration
Dislocated Workers Assistance
UI Benefits - PUA
UI Benefits - FPUC
UI Benefits - PEUC

UI Supplemental Budget
UI Emergency Relief - Employer Reimbursement
Waiting Week Funds
Emergency Response Activities
Suicide Prevention Programs
Election Security Grants
LSTA State Grants
Transit Infrastructure Grants - NonUrbanized Area
Transit Infrastructure Grants - Growing States
Grants-in-Aid to Airports
Grants-in-Aid to Airports via Block Grant
Disaster Relief Fund
Emergency Management Performance Grants
Enhanced FMAP
100% payment Covid-19 testing costs - TennCare
Low Income Home Energy Assistance Program
Emergency Solutions Grants
Tenant-Based Rental Assistance
Armories Maintenance
# Federal COVID Funds

## Federal COVID Funds - TENNESSEE

(Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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<tbody>
<tr>
<td>AGRICULTURE</td>
<td>$5.2</td>
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<tr>
<td>AGING</td>
<td>22.2</td>
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<tr>
<td>ARTS COMMISSION</td>
<td>0.5</td>
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<tr>
<td>CHILDRENS SERVICES</td>
<td>5.4</td>
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<tr>
<td>HUMAN SERVICES</td>
<td>127.5</td>
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<td>ECD</td>
<td>34.8</td>
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<tr>
<td>EDUCATION</td>
<td>398.6</td>
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<td>FINANCE &amp; ADMINISTRATION</td>
<td>2,378.1</td>
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<tr>
<td>HEALTH</td>
<td>195.1</td>
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<tr>
<td>HIGHER EDUCATION</td>
<td>192.7</td>
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<tr>
<td>LABOR</td>
<td>3,222.7</td>
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<td>MENTAL HEALTH</td>
<td>2.8</td>
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<tr>
<td>MILITARY</td>
<td>1.2</td>
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<tr>
<td>SECRETARY OF STATE</td>
<td>8.6</td>
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<td>DEPARTMENT OF TRANSPORTATION</td>
<td>70.1</td>
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<td>TENNESSEE EMERGENCY MANAGEMENT AGENCY</td>
<td>102.2</td>
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<tr>
<td>TENNCARE</td>
<td>372.0</td>
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<td>THDA</td>
<td>62.2</td>
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<tr>
<td><strong>TOTAL - TENNESSEE</strong></td>
<td><strong>$7,202.0</strong></td>
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*Does not include Disaster Relief Funds*
## Coronavirus Relief Fund

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

<table>
<thead>
<tr>
<th>Role</th>
<th>Recommendations</th>
</tr>
</thead>
</table>
| GOVERNOR can Recommend/Add | 1) Talk with the Governor’s Office/Key Staff Prior to Budget Submittal  
                          | 2) Talk with the Governor’s Office/Key Staff prior to Governor Revising Budget |
| LEGISLATURE can Recommend/Add | 1) Talk with Finance Chair and Leadership  
                                   | 2) File an amendment to the Budget (w/ Finance Committee) |
Questions?