

## A Conservative Budget for Tennessee

### Introduction

For several decades and under the control of both Republicans and Democrats, Tennessee has been known for its fiscally conservative budgeting. Years of limited spending and low taxes have kept hundreds of millions of dollars in the pockets of Tennessee taxpayers that might otherwise have gone to government bloat. In fact, according to the Tax Foundation, Tennessee residents pay less in taxes than anyone in the country.<sup>1</sup> Conservative budgeting has not only helped Tennessee taxpayers, but it also positioned the state to enter the COVID-19 crisis with a relatively strong “rainy day fund” of \$1.1 billion, or seven percent of the state’s general fund expenditures.<sup>2</sup> Tennessee remains in a strong financial position as its economy has bounced back stronger than the national average post-pandemic.<sup>3</sup> Conservative budgeting and sound policy during the pandemic contributed to such strong tax revenues that the state had an unprecedented \$2.1 billion surplus in the latest fiscal year despite the crisis.<sup>4</sup>

But future good times are no guarantee—and that’s why, whether in good or bad times, Tennessee families practice priority-based budgeting, making tough choices on how to spend their hard-earned dollars. If Tennessee is to remain an economic powerhouse, policymakers must also continue to make fiscally conservative choices, resist the temptation for excessive spending, and not make it overly difficult for Tennessee taxpayers to fund their state government.

### Overview of the Conservative Tennessee Budget

By continuing to pass conservative budgets, Tennessee lawmakers can ensure state spending does not exceed the average taxpayer’s ability to pay for it. This will pave the way for even further tax cuts that can be reinvested in the Volunteer State’s economy and ensure state spending does not grow so large that the state cannot afford its level of spending should another pandemic or recession occur.

Beacon’s new Conservative Tennessee Budget (CTB) sets a maximum threshold for the state budget based on taxpayers’ ability to fund it, instead of how much an appropriator should

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<sup>1</sup> Janelle Cammenga, “How High Are State and Local Tax Collections in Your State?” Tax Foundation. April 14, 2021. <https://taxfoundation.org/state-local-tax-collections-per-capita-2021/>.

<sup>2</sup> Jared Walczak and Janelle Cammenga, “State Rainy Day Funds and the COVID-19 Crisis.” Tax Foundation. April 7, 2020. <https://taxfoundation.org/state-rainy-day-funds-covid-19/>.

<sup>3</sup> Ron Shultis, “Walking the Policy Tightrope: Balancing Lives and Livelihoods During the COVID-19 Pandemic.” Beacon Center of Tennessee. April 11, 2021. <https://www.beacontn.org/wp-content/uploads/2021/08/covidreport.pdf>.

<sup>4</sup> “July Revenues.” Tennessee Department of Finance & Administration. August 13, 2021. <https://www.tn.gov/finance/news/2021/8/13/july-revenues.html>.

appropriate. This threshold is an upper limit on initial appropriations of all funds (total state and federal funds) that increases by no more than population growth plus inflation above initial appropriations of the previous budget.<sup>5</sup> We use all funds because it represents the full burden of the state government on taxpayers. This also allows appropriators the flexibility of determining how best to allocate resources between legislative priorities that may need more or less funding, as long as the total budget does not exceed the total CTB. If the amount matches this limit, it will essentially freeze real per-capita appropriations while covering essential government provisions. Research shows that limiting a state’s budget to population growth plus inflation helps to stabilize budgets, increases certainty for taxpayers, and promotes economic growth.<sup>6</sup>

### A Look Back at Past Tennessee Budgets

By looking back, we can see Tennessee has met the CTB for much of the past decade, cumulatively over \$9 billion under the CTB’s full allowance—saving each family of four, on average, a total of \$5,893 since 2011 (Figure 1). Because spending and taxes are two sides of the same coin, it’s these savings that have allowed Tennessee legislators to eliminate various taxes like the Hall income tax, death tax, and gift tax, and for the majority of professions originally subject to the professional privilege tax.

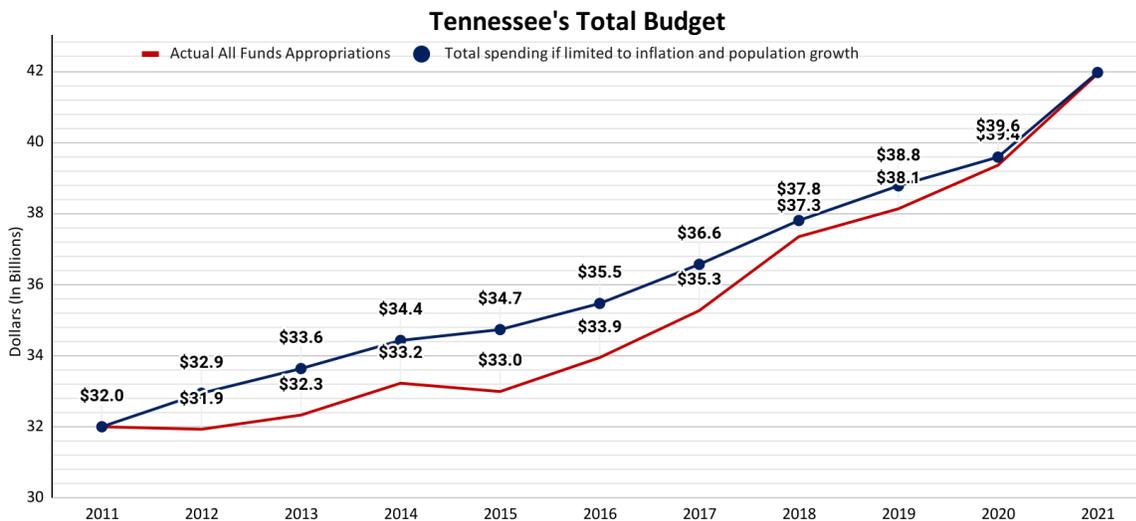


Figure 1: For years, Tennessee lawmakers have passed fiscally conservative budgets, saving Tennessee taxpayers billions of dollars.

<sup>5</sup> Vance Ginn, “The Responsible American Budget.” Texas Public Policy Foundation. May 25, 2021. <https://www.texaspolicy.com/the-responsible-american-budget-bringing-fiscal-sanity-to-the-federal-budget/>.  
<sup>6</sup> John Merrifield and Barry Poulson, “State Fiscal Policies for Budget Stabilization and Economic Growth: A Dynamic Scoring Analysis.” *Cato Journal*, Vol. 34, No.1. 2014. <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2014/2/v34n1-3.pdf>.

## Calculating the Conservative Tennessee Budget

The CTB growth rate for the fiscal year 2022–2023 can be calculated with the state’s population growth and price inflation over the fiscal year 2021-2022. Therefore, we find a growth rate of total population growth plus inflation of 6.0 percent to serve as the upper appropriations growth limit for the fiscal year 2022-2023 budget (Table 1).

Population + Inflation Calculation	TN Population Growth	US CPI Inflation	Population + Inflation Limit
2021	0.8%	5.2%	6.0%

*Table 1: For the upcoming fiscal year, the state government will not exceed taxpayers’ ability to pay if it grows no more than 6.0 percent from last year’s appropriations.*

By applying the 6.0 percent to last year’s appropriations of \$42.6 billion, we get a CTB limit for the fiscal year 2022-2023 of \$45.16 billion. We intend to exclude any explicit one-time COVID-19 disaster-related funds. Additionally, because savings and tax cuts are not true spending if revenues exceed the CTB amount of \$45.16 billion, deposits into the rainy day fund, TennCare reserves, or other reservoirs like the Mental Health Fund will

not count towards the amount. Likewise, lawmakers could enact further tax reforms with surplus revenues, including but not limited to corporate tax reform or eliminating the rest of the professional privilege tax, without those reforms counting against the spending limit.

## Conclusion

For years, Tennessee leaders have practiced conservative budgeting, keeping increases in state spending below population growth plus inflation for at least a decade. This has saved Tennessee taxpayers hundreds of millions of dollars, allowing for further pro-growth tax cuts. The CTB sets a maximum threshold for the General Assembly at \$45.16 billion for the 2022-2023 budget. By keeping spending below this amount, we can ensure that the burden on

The Conservative  
**TENNESSEE BUDGET**  
Appropriations for the 2022-2023 Budget should not exceed

**45.16 BILLION**  
*in state and federal funds,  
excluding investments in  
savings and trust funds*

**6% INCREASE**  
*from 2021-2022 appropriations  
based on population plus  
inflation growth*

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Tennessee families to fund the state government will not increase beyond their means and that they have the best opportunity to prosper and live their version of the American dream.

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