



Bigger Pockets and Balanced Budgets

Passing A Conservative Budget
for Tennessee in 2024



Introduction

Throughout the COVID-19 pandemic, the federal government took the unprecedented action of giving millions of Americans cash directly through “stimulus” checks. While this made national news and dominated the public conversation, individuals were not the only ones to receive those funds. One of the other major beneficiaries: the states. Between multiple COVID-19 relief bills like the Coronavirus Aid, Relief, and Economic Security Act (CARES) and the American Rescue Plan Act (ARPA), the federal treasury gave state governments billions of dollars to help backfill their coffers. As a result, Tennessee received more than \$20 billion from the federal government.¹

What’s the problem with that? For many states, after the first few months of the pandemic, revenues decreased little if at all, and in some cases reached historic highs. Tennessee, for example, finished the 2022 fiscal year with a \$4.6 billion surplus.² This left it and other states flush with both cash and time, with several years to spend this federal windfall. State spending ballooned as policymakers sought to responsibly draw down these unrequested taxpayer funds.³

While some parts of society have not and will never “return to normal” after the pandemic, one thing that must is the state’s budget. After years of being flush with unprecedented levels of federal funds, we are finally seeing the last of the pandemic-related money come off the state’s balance sheet with roughly \$149 million left unallocated as of the end of 2022.⁴ Like a family that’s used to a high standard of living who struggles when facing economic hardship for the first time, state policymakers may find it difficult to adjust to this “new normal” of reduced federal funding. Without the benefit of billions of dollars in unnecessary federal aid, it is more important than ever for Tennessee leaders to practice conservative budgeting.

Luckily, Tennessee has been known for that for several

1. Gov. Bill Lee, “The Budget, Fiscal Year 2023–2024” State of Tennessee.
<https://www.tn.gov/content/dam/tn/finance/budget/documents/2024BudgetDocumentVol1.pdf>.
2. Jon Styf, “Tennessee Collected \$4.6B more than budgeted in taxes and fees for fiscal year.” The Center Square. August 12, 2022.
https://www.thecentersquare.com/tennessee/article_af3bb5ce-1a73-11ed-b1e9-c7f9cb7c49e0.html.
3. Ron Shultis and Vance Ginn, Ph.D., “Passing a Conservative Budget for Tennessee in 2023.” Beacon Center of Tennessee. September 1, 2022.
<https://www.beacontn.org/wp-content/uploads/2022/09/TN-Conservative-Budget-2022-1.pdf>.
4. “The Budget, Fiscal Year 2023–2024.” State of Tennessee.
<https://www.tn.gov/content/dam/tn/finance/budget/documents/2024BudgetDocumentVol1.pdf>.

decades. This history of fiscal responsibility has helped keep taxes low, thereby allowing Tennesseans to keep billions of dollars in their pockets which might otherwise have gone to government bloat. In fact, according to the Tax Foundation, Tennessee residents pay less in state and local taxes per capita than anyone else in the country.⁵ Cuts to many state tax programs—including the Hall Income tax, Death tax, Gift tax, the majority of professions originally subject to the Professional Privilege tax, and most recently

the Business tax and Franchise and Excise tax in the Tennessee Works Tax Act—have returned billions of dollars to taxpayers. This combination of conservative budgeting and cutting has led to prosperity for Tennesseans. Table 1 shows how Tennessee compares with the four largest states and several bordering states based on several measures of economic freedom, government largesse, and economic outcomes.

Measure	U.S.	Florida	Texas	Tennessee	Georgia	California	New York
Economic Freedom of North America (2020) ¹³	7th (World)	1st	4th	4th	8th	49th	50th
State Migration Trends, Most Inbound (2022) ¹⁴	--	1st	4th	11th	12th	41st	50th
State Business Tax Climate (2023) ¹⁵	--	4th	13th	14th	32nd	48th	49th
State Economic Outlook (2023) ¹⁶	--	9th	13th	11th	12th	45th	50th
State & Local Spending Per Capita (2022) ¹⁷	--	46th	37th	45th	48th	4th	2nd
S&L Spending on Public Welfare Per Capita (2020) ¹⁸	--	47th	44th	31st	49th	5th	1st
S&L Tax Burden Per Capita (2022) ¹⁹	--	11th	6th	3rd	8th	46th	50th
S&L Property Tax Collections Per Capita (2020) ²⁰	--	22nd	39th	4th	19th	36th	46th
Composite Cost of Living Index (Q1:2023) ²¹	--	31st	17th	10th	12th	49th	48th
Avg. U-3 Unemployment Rate (2003-22) ²²	6.0%	5.8%	5.6%	6.1%	6.3%	7.2%	6.2%
Avg. Labor Force Participation Rate (2003-22) ²³	64.0%	60.7%	65.1%	61.8%	64.4%	63.5%	61.5%
Avg. Annual Nonfarm Payroll Growth (2003-22) ²⁴	0.8%	1.4%	1.8%	1.0%	1.1%	1.0%	0.6%
Avg. Top 5% Income Shares (2003-18) ²⁵	36.9%	44.6%	36.8%	33.6%	34.2%	39.4%	47.1%
Official Poverty Measure (2019-21) ²⁶	11.2%	12.5%	12.9%	12.2%	13.1%	11.0%	12.3%
Supplemental Poverty Measure (2019-21) ²⁷	9.6%	11.9%	10.4%	9.1%	10.2%	13.2%	12.1%

Table 1: Comparison of States for Measures of Economic Freedom and Outcomes. References on Page 9.

While not receiving as much national attention as Texas or Florida, Tennessee has become one of the freest and most prosperous states in the country. Notes. Dates in parentheses are for that year or the average of that period. Data shaded in red indicate “best,” and in blue indicate “worst” per category by state. Comparisons and sources are similar to those in a report by the Pelican Institute for Public Policy.

5. Janelle Fritts, “Facts & Figures 2023: How Does Your State Compare?” Tax Foundation, March 23, 2023. <https://taxfoundation.org/publications/facts-and-figures/>

This data reveals that the politically Republican states of Tennessee, Florida, Texas, and Georgia remain among the most economically free, boasting lower spending and tax burdens, better labor markets and costs of living, and, in most cases, lower income inequality and poverty—even while spending less on public welfare per capita. Meanwhile, the two politically Democratic states of New York and California have the worst rankings in terms of economic freedom, burdens of government, and costs of living among these states and almost in the entire country. Furthermore, the performance of these two dark blue states is either the worst or near the worst in each economic category. Tennessee has the lowest share of income going to the top 10 percent of income earners. And Tennessee’s supplemental poverty measure, which considers after-tax income, transfer payments, cost of housing, and other differences not considered in the official poverty measure, is lower than the lowest of these states and lower than the U.S. average.⁶ But this measure of poverty has its own problems, such as not including health insurance, government assistance, and thresholds.⁷

But sound economic policies and restrained spending are now more important than ever. State policy leaders must practice discipline to soft-land our state’s budgets in the realities of our “new normal” if we are to avoid the trap of spending as if Uncle Sam is continuing to cut the state a check. Because it doesn’t matter whether these are state or federal funds, every dollar comes from hard-working taxpayers—and therefore, from the productive private sector where people flourish.

6. Vance Ginn, “Unleashing Opportunity: What Can Texas Learn From U.S. Poverty Relief Efforts?” Texas Public Policy Foundation. May 4, 2022.
<https://www.texaspolicy.com/wp-content/uploads/2022/05/2022-04-RR-AFO-Ginn-UnleashingOpportunity-1.pdf>.

7. Bruce D. Meyer and Kevin Corinth, “We Need to Change How We Measure Poverty.” American Enterprise Institute. September 13, 2021.
<https://www.aei.org/articles/we-need-to-change-how-we-measure-poverty/>.



Overview of the Conservative Tennessee Budget

That necessary fiscal discipline would be achieved by continuing to pass conservative budgets. Beacon’s Conservative Tennessee Budget (CTB) model sets a maximum threshold for the state’s total budget based on the average taxpayer’s ability to fund it, instead of how much should be appropriated. This threshold is an upper limit on initial appropriations of total state and federal funds that increases by no more than the rate of population growth plus inflation above initial appropriations of the previous budget.⁸ We use all funds because it represents the full burden and impact 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 (inflation-adjusted) 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.⁹

8. Vance Ginn, “Responsible State Budget Revolution Across the U.S.—Updated.” Vance Ginn Economic Consulting. May 22, 2023. <https://www.vanceginn.com/letpeopleprosper/responsible-state-budgets-across-the-us>.

9. 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>.

Tennessee's History of Conservative Budgets

Since 2011, Tennessee has held its budget at or below the CTB until the past few years (Figure 1). These recent budgets in which appropriations grew faster than the rate of population plus inflation were the high point of federal pandemic-related funding.

Fortunately, the CTB has been helpful until the last two fiscal years, as the all-funds appropriations have been under the CTB until the massive appropriations in 2022 drove the budget well above the rate of population growth plus inflation.

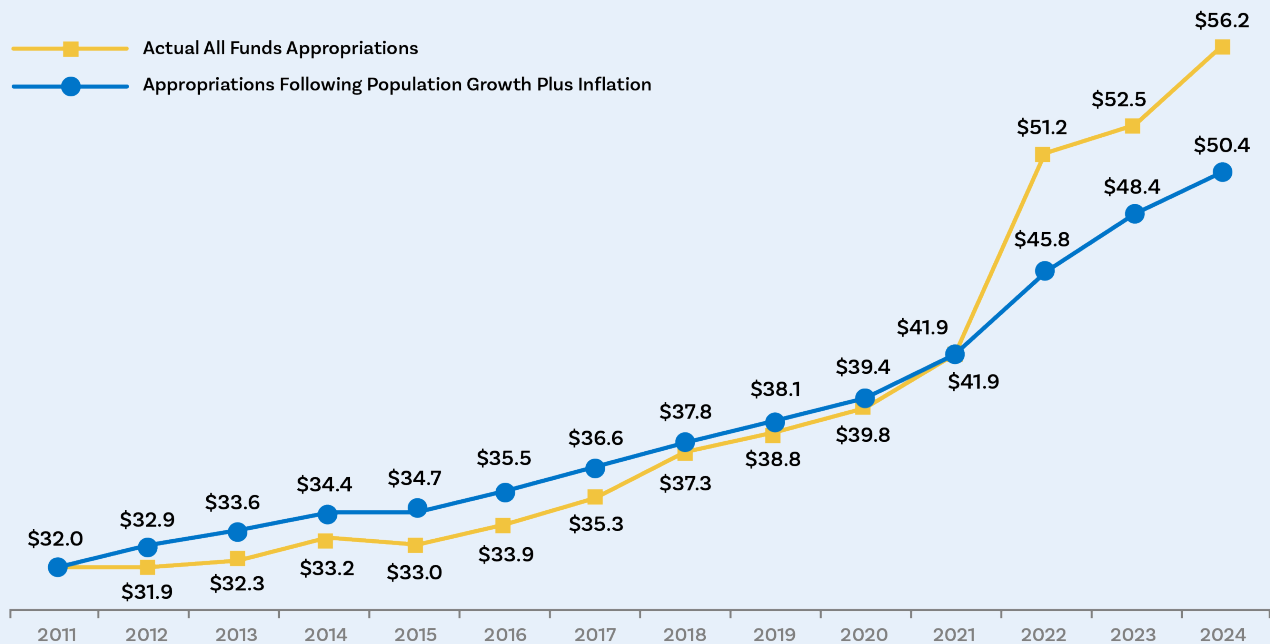


Figure 1. Tennessee's All-Funds Budget Compared with Population Growth Plus Inflation
 Source: Tennessee budget documents and Fed FRED for Tennessee population and consumer price index.

This recent excessive spending has placed a higher burden on taxpayers; the average family of four has paid \$3,200 more in taxes than if the budget had stayed within the CTB over time. With most federal pandemic-

related funds off the books, budget restraint is needed moving forward to continue Tennessee's winning formula and further the tax cuts of recent years.

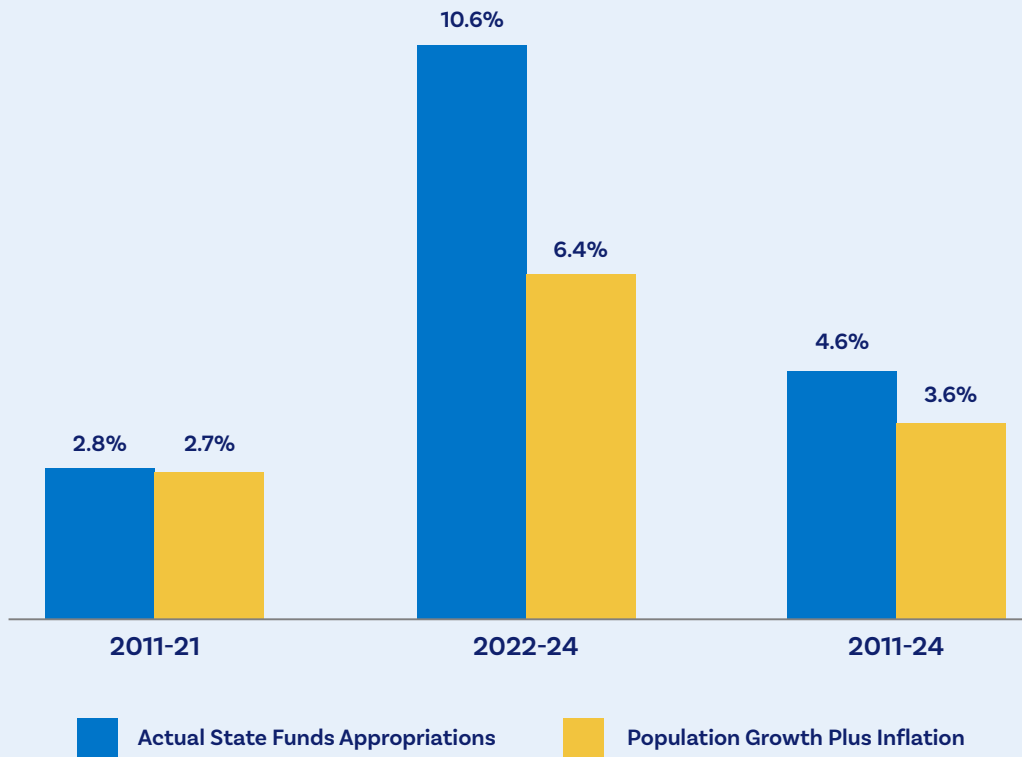


Figure 2. Growth of Appropriations vs. Population Growth Plus Inflation Over Time

Even with the highest inflation rate in decades, state spending has outpaced population growth plus inflation due to high levels of spending of pandemic-related funds from the federal government.

While federal funds have left the state with

even larger surpluses and the ability to continue cutting taxes, as with the recent Tennessee Works Tax Act, the state will need to return to pre-pandemic budgeting to further pro-growth policies and tax cuts as the last of these funds wind down.

Calculating the Conservative Tennessee Budget

The CTB growth rate for the fiscal year 2025 budget can be calculated with the state's population growth and price inflation over the previous fiscal year in 2023 before the legislative session. Using the latest estimates,

we found a rate of population growth plus inflation of 5.8 percent to serve as the maximum appropriations growth limit for FY 25 budget (Table 2).

Population + Inflation Calculation	TN Population Growth	US CPI Inflation	Population + Inflation Limit
2023	1.00%	4.80%	5.80%

Table 2: For the upcoming fiscal year, the state government will not exceed the average taxpayers' ability to pay for the budget if it grows no more than 5.8 percent from last year's appropriations.

The Conservative Tennessee Budget

Appropriations for the 2024-2025 Budget should not exceed

59.45 billion

in state and federal funds, excluding investments in savings and trust funds.

5.8% increase

from 2023-2024 appropriations based on population plus inflation growth.

While \$59.45 billion represents the maximum amount for not growing the state's budget beyond the average taxpayer's ability to fund it, state policymakers can and should aim to spend below that number, especially

given the large budgets over the previous several years. By doing so, policymakers can continue to return overcollections to taxpayers through additional tax cuts.

For example, this past year the exemption for the Business Tax, the state's gross receipts tax, was raised from \$10,000 to \$100,000. Gross receipts taxes are known to have extremely negative economic effects, and Tennessee is one of only seven states with such a tax— rather “black eye” on an otherwise competitive economic landscape.¹⁰ State policymakers could continue to build on the recent reform and make the state more competitive by fully repealing the Business

Tax. A bill was filed in 2023 to do this.¹¹ Fully repealing this tax that represents less than two percent of the state's revenue would have a much greater impact for Tennessee businesses, according to a recent study.¹² In addition to tax cuts, deposits into the rainy-day fund, TennCare reserves, or other reserves like the Mental Health Fund will not count towards the amount and provide policymakers with options should revenues exceed the CTB amount of \$59.45 billion.

Conclusion

For at least a decade before the pandemic, Tennessee leaders have practiced conservative budgeting, keeping increases in state spending below population growth plus inflation. This saved Tennessee taxpayers billions of dollars, allowing for further pro-growth tax cuts. As the state is finally spending the last of its federal relief funds, it is more important than ever that Tennessee leaders practice conservative budgeting and fiscal restraint, correct for those excesses, and return to pre-pandemic spending trends. The Conservative Tennessee Budget ensures that the burden on Tennessee families to fund the state

government will not increase beyond their ability to pay for it. For the upcoming FY2025 budget, that maximum threshold would be \$59.45 billion. By appropriating below that amount, Tennessee policymakers will continue to give taxpayers the best opportunity to prosper and live their version of the American dream. Finally, Tennessee should make this CTB approach the law of the land by improving the state's current spending limit with this stronger limit to best let people prosper.

10. Janelle Fritts, “Does Your State Have a Gross Receipts Tax?” Tax Foundation. June 7, 2022.
<https://taxfoundation.org/state-gross-receipts-taxes-2022/>.

11. House Bill 157/Senate Bill 1310. 113th General Assembly.
<https://wapp.capitol.tn.gov/apps/BillInfo/Default.aspx?BillNumber=HB0157&ga=113>.

12. Jason DeBacker and Richard Evans, “What Business Tax Reforms Would Be Best for Tennessee?” The Center for Growth and Opportunity at Utah State University. January 12, 2023.
<https://www.thecgo.org/research/what-business-tax-reforms-would-be-best-for-tennessee/>.

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<https://www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf>.
- [27] Ibid.



About Us

The Beacon Center empowers Tennesseans to reclaim and protect their freedoms, so that they can pursue their version of the American Dream. The Center is an independent, nonprofit, and nonpartisan research organization dedicated to providing expert empirical research and timely free market solutions to public policy issues in Tennessee.

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