

Analyzing and Communicating About State Budgets

Featuring: Mandy Spears and Jason Stein

May 23, 2024

www.statesforthefuture.org



**STATES FOR
THE FUTURE**

*Welcome! Enter your
name, organization &
state in the chat.*

Key takeaways:

Analyzing and Communicating About State Budgets - May 23, 2024

- **Creating fair, non-partisan budget analysis builds trust with policymakers and the public alike, and can get your organization invited into new conversations:** Offering budget analysis that is both helpful to and at times critical of both sides of the aisle builds trust in your organization and a reputation for being truly non partisan. This helps maintain your organization's influence regardless of who is in office. In other words, don't be afraid to "piss off both sides."
- **Compelling storytelling and visuals are the most effective means of communicating with stakeholders.** Providing just the numbers of the budget will not create the impact your organization is looking for – instead take your audience by the hand and explain what the budget means, and the implications that policy makers can “hang their hat on.”
- **Tailor your organization's budget work around what is already available in your state.** Creating work that is duplicative to what is already available will not help you make an impact. Instead, offer analysis that is unique. For example, if another organization in your state writes comprehensive budget analysis, try creating complementary work that “translates” the key facts into shorter form language.
- **If you want to get involved with budget work, you can start small.** Most of the state budget goes to just a few line items. You can focus on just those few line items to cover most of your state's budget, and may spare you from chiming in on policy areas your organization doesn't otherwise wish to tackle.



STATES FOR THE FUTURE

A Data to Policy Network

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Today's speakers:



Mandy Spears
Deputy Director



THE SYCAMORE
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Jason Stein
Research Director



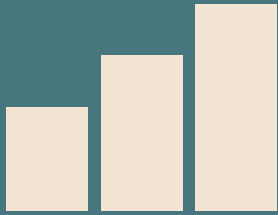
In Pursuit of a Thriving Tennessee



THE SYCAMORE
INSTITUTE

- Independent, nonpartisan research and analysis
- Equip civic leaders with data-driven resources to identify, understand, and solve challenges
- More effectively engage with and address barriers to good health and economic security

Our Approach



Accurate



Impartial



Accessible

Sycamore's Research Areas

Health



**Budget &
Finance**



**Criminal
Justice**



**Economic
Mobility**



Education



**Routine &
Responsive**



Sycamore's Staff

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Sr. Policy
Analyst

Grace Baron



Comm. &
Engagement Manager

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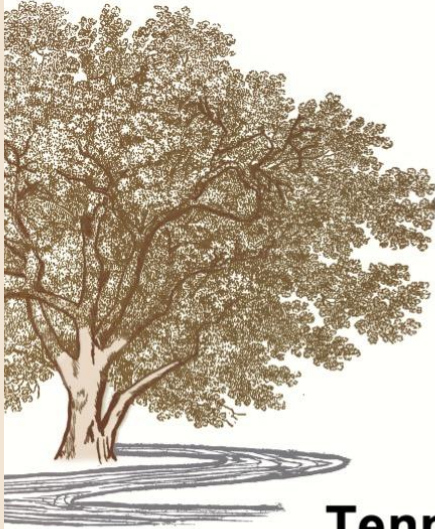


Special Projects
Manager

State Budget Analysis In Tennessee



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Tennessee State Budget Primer

A Foundation for Understanding Our State's Public Policies

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- **Process**
- **Key Terms & Concepts**
- **Deeper Dives**
- **Historical & National Context**
- **Best Practices**



Tennessee's Budget in Brief

Summary of Governor Lee's FY 2025 Recommended Budget

February 21, 2024

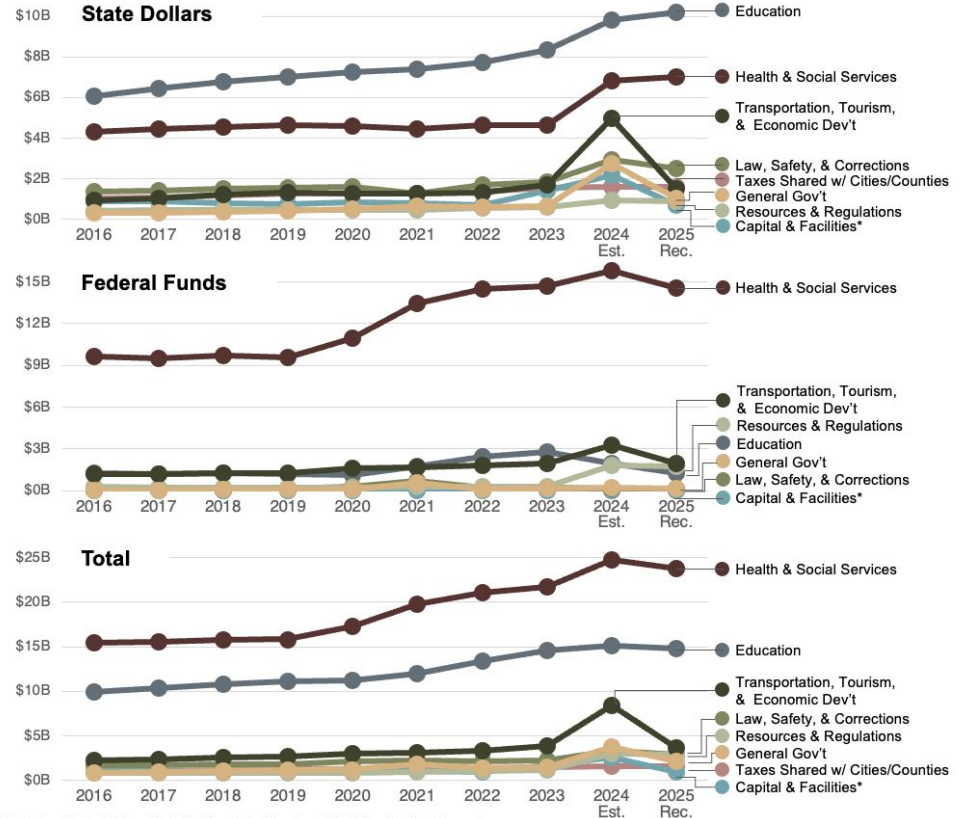
Key Takeaways

- Compared to current law, Gov. Lee's budget reflects lower-than-expected tax collections and proposes new spending and tax cuts for FYs 2024-2025 — mostly funded by previously unallocated recurring revenues and a large FY 2023 surplus.
- Spending in the governor's FY 2025 recommendation from all revenue sources is 16% (or \$9.9 billion) lower than FY 2024 estimates. Spending from state revenues is 21% (or \$6.6 billion) lower.
- These year-over-year decreases follows historically high spending levels in the last several years — driven by fast revenue growth and billions in federal aid.
- The largest recurring increases are recommended for state personnel-related costs, school funding formula growth, subsidies for private school students, and inflationary increases.
- Gov. Lee proposes a \$410 million cut to the franchise tax on businesses. Business tax collections are currently 11% below projections made after prior cuts enacted last year.
- Combined, the two main rainy day reserves would total \$3.6 billion in FY 2025 and cover about 59 days of General Fund operations — about 18 days more than before the Great Recession.

On February 5, 2024, Tennessee Governor Bill Lee released his \$52.6 billion recommendation for the state's FY 2025 Budget along with re-estimates and recommended changes for FY 2024. (1) (2) Budgets reflect policymakers' goals, the public goods and services intended to help meet those goals, and detailed plans to finance them. It is now the legislature's job to consider and act on this recommendation.

The FY 2025 Recommendation Follows Historically High Spending Levels in Recent Years

Budget by Expenditure Category (FYs 2016-2025)



*Includes Capital Outlay, Facilities Revolving Fund, and Debt Service Requirements
Source: The Sycamore Institute's analysis of the FYs 2018-2025 Tennessee State Budgets



Summary of Tennessee's FY 2025 Enacted Budget

May 16, 2024

Key Takeaways

- Major differences in the enacted budget vs. the governor's recommendation include more money for franchise tax refunds, a potential FY 2024 revenue deficit, and new spending funded mainly by higher expected treasury investment earnings.
- Compared to the governor's initial proposal, these changes increase spending from state revenues by \$92 million or 0.3% in FY 2024 and by \$301 million or 1.2% in FY 2025.
- The final budget includes \$144 million for Education Freedom Scholarships. As lawmakers did not pass a bill to create that program, those funds can't be spent but will remain in the base budget.
- The enacted budget includes a \$100 million deposit to the state's rainy day fund in FY 2025 — \$80 million more than the governor proposed in February.

In late April, the General Assembly amended and approved Tennessee's FY 2025 budget, which starts July 1, 2024. The enacted budget included revisions from the governor and legislature to the [original February budget plan](#) for FYs 2024 and 2025. The changes reflect new revenue information, program needs, and legislative action. Compared to the recommendation, these changes boost spending and allocations from state revenues by \$92 million or 0.3% in FY 2025 and by \$301 million or 1.2% in FY 2025.

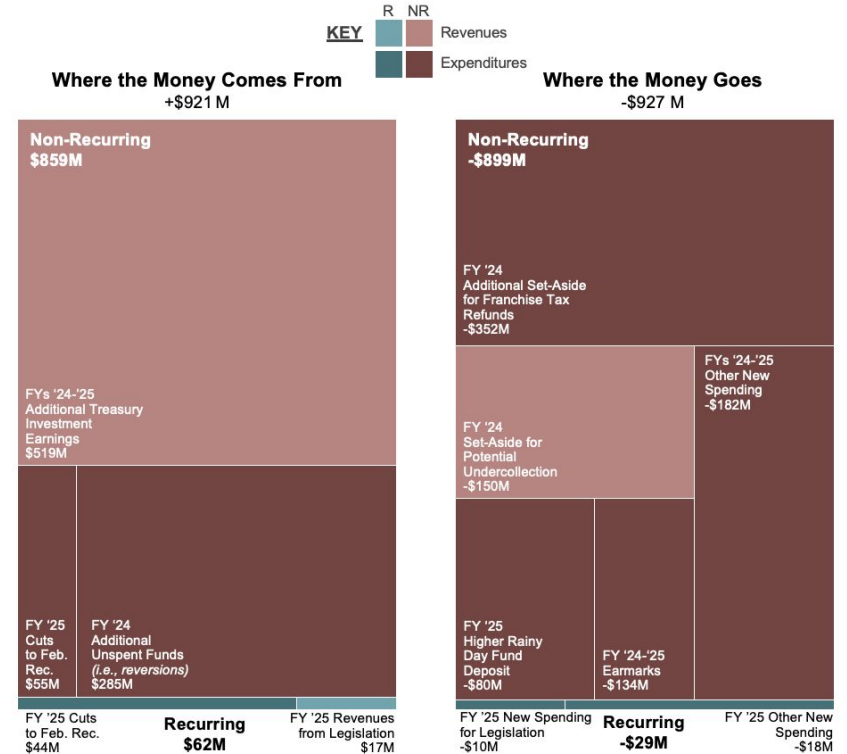
This summary highlights key changes and developments since February. (1) (2) (3) (4) (5)

Overview

Compared to the February proposal, the enacted budget includes more money for franchise tax refunds, a potential FY 2024 revenue deficit, and new spending—funded mainly by higher expected treasury investment earnings (Figure 1). Together, this boosts spending from state revenues to an estimated \$32.1 billion in FY 2024 and \$25.7 billion in FY 2025.

Funding Changes in the Enacted FY 2025 Budget — Where the Money Comes from and Where It Goes

Enacted Changes to Revenues & Expenditures in FYs 2024-2025 vs. February Proposal



Source: The Sycamore Institute's analysis of the FY 2025 Tennessee State Budget documents and appropriations bill

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The Education Freedom Scholarship Act and Private Schools in Tennessee

February 2, 2024

Key Takeaways

- Tennessee has five categories of private schools — each with different accreditation and approval standards and requirements for curriculum, testing, and teacher qualifications.
- Gov. Lee proposes giving students about \$7,100 per year for the costs and expenses of attending private school, which would be available to all 1.1 million of Tennessee's school-aged children in the 2025-2026 school year.
- There are some similarities between the proposed Education Freedom Scholarships and the existing Education Savings Account program but also many key eligibility differences.
- Tennessee has 626 private schools in 76 counties and 95 school districts.
- In 2021-2022, about 960,000 Tennessee children — or 85% of all school-aged kids — were enrolled in public schools, but reliable data on where the remaining 165,000 were enrolled aren't available.

This year, the General Assembly will consider Governor Bill Lee's Education Freedom Scholarship Act to financially support students attending private schools. This report explains what we know about the proposal, highlights differences with an existing program, and provides context and data on Tennessee's current private school landscape.

Note: This report is based on official information (cited throughout) on the Education Freedom Scholarship Act available at the time of publication.

Private School Types in Tennessee

Tennessee defines and categorizes several different types of public and nonpublic schools to inform compliance with state law requiring all children ages 6-17 to attend school (Figure 1). Public schools are those operated with public dollars by a local school district or the state (i.e., traditional public schools) and those operating under a charter agreement with a local district or the state (i.e., public

Tennessee Private School Categories and Requirements

Private School Category	Examples of Requirements			
	Approval/ Accreditation	Curriculum	Testing	Teacher Qualifications
Category I: Dept. of Education Approved	Approved by the TN Dept. of Education	Must offer certain subjects and adopt high school graduation requirements that meet State Board minimums	Annual national standardized achievement test in 3rd-11th grade math and English	Tennessee educator license
Category II: Agency Accreditation	Accredited by 1 of 9 agencies approved by the State Board of Education	Must offer certain subjects and adopt high school graduation requirements that meet State Board minimums	Annual national standardized achievement test in 3rd-11th grade math and English	As defined by the school's accrediting agency
Category III: Regional Accreditation	Accredited by 1 of 6 regional agencies approved by the State Board	Must offer certain subjects and adopt high school graduation requirements that meet State Board minimums	Annual national standardized achievement test in 3rd-11th grade math and English	As defined by the school's accrediting agency
Category IV: Church-Related Schools	Member of 1 of 9 church/private school organizations or approved by the State Board	None	None	As defined by the school's member organization and home school parent- teachers
Category V: Registered for Operation	None	None	Annual national standardized achievement test in 3rd-11th grade math and English	Bachelor's degree

Source: Tennessee State Board of Education

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What's in Gov. Lee's 2023 Transportation Modernization Act

February 24, 2023

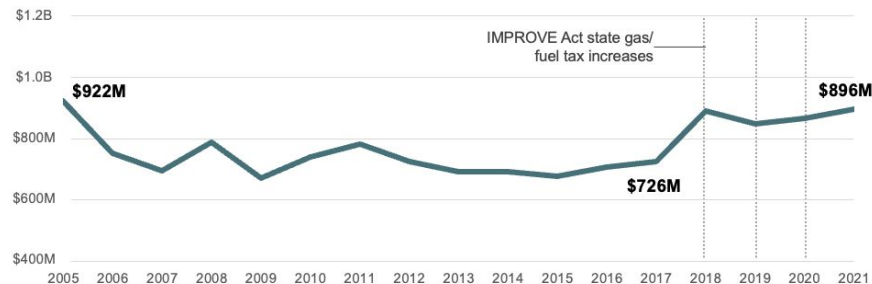
Key Takeaways

- Tennessee's Highway Fund revenues have struggled to keep up with cost increases for previously approved projects and the demand for new projects.
- As part of the FY 2024 budget process, the governor proposed the Transportation Modernization Act to address pressures on road funding revenues and needs.
- Key features include:
 - A \$3.3 billion one-time subsidy from the General Fund for state and local transportation needs.
 - Higher fees on electric vehicles and new fees on hybrids to backfill expected losses in existing revenue streams — both of which would be shared with local governments.
 - Paid choice lanes to address urban congestion using public-private partnerships.
 - The authority to more frequently use contracting strategies that could reduce construction timelines and costs.

On February 6, 2023, Tennessee Gov. Bill Lee released his \$55.6 billion recommendation for the state's FY 2024 Budget — along with recommended changes for FY 2023. (1) (2) Among his agenda items are efforts to address pressures on Tennessee's current approach to road funding and ability to meet our growing population's mobility needs. This brief summarizes and analyzes key pieces of that proposal. See [here for a full summary](#) of the FY 2024 budget.

Even With Tax Increases, Tennessee's Road Funding Struggled to Keep Up With Inflation Over the Last 15 Years

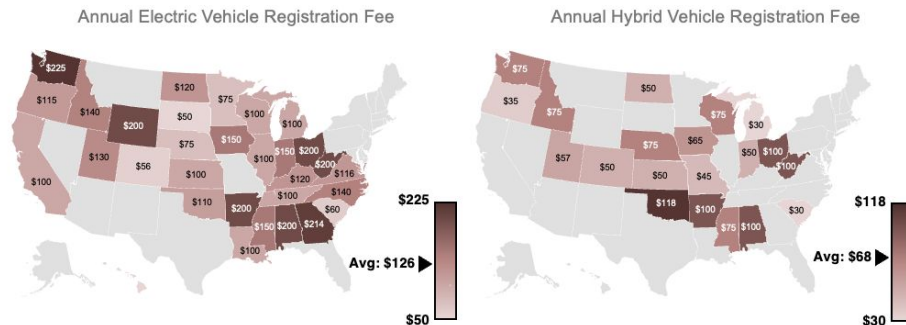
Tennessee Highway Fund Tax Collections (Adjusted for Inflation*)



*In 2021 dollars using the National Highway Construction Cost Index (NHCCI).
Source: The Sycamore Institute's analysis of data from TN State Budgets and USDOT

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32 States Charge As Much As \$225 Per Year for Electric Vehicles, and 20 States Collect Up to \$118 for Hybrids



Notes: Represents the maximum annual additional fee as of February 1, 2023, exclusive of any other vehicle registration fees or personal property taxes. Some fees may be less in each category based on vehicle weight, age, value, miles per gallon, and plug-in status.

Source: Sycamore Institute's analysis of data from U.S. Department of Energy, National Conference of State Legislatures, and Kansas State Legislature

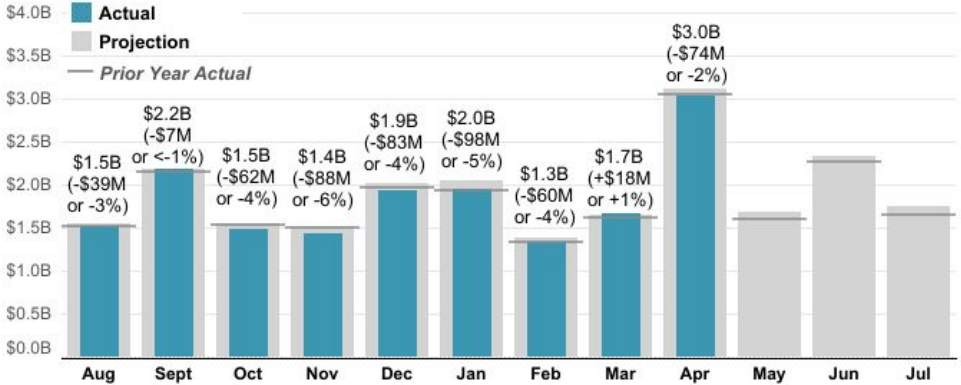
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FY 2024 Tennessee Tax Revenue Tracker

The charts at the top of this dashboard show Tennessee's revenue collections for FY 2024 relative to the estimates for which the state "budgeted" at the start of the fiscal year.

Monthly Collections

Actual vs. Budgeted



Year-to-Date Collections

Actual vs. Budgeted



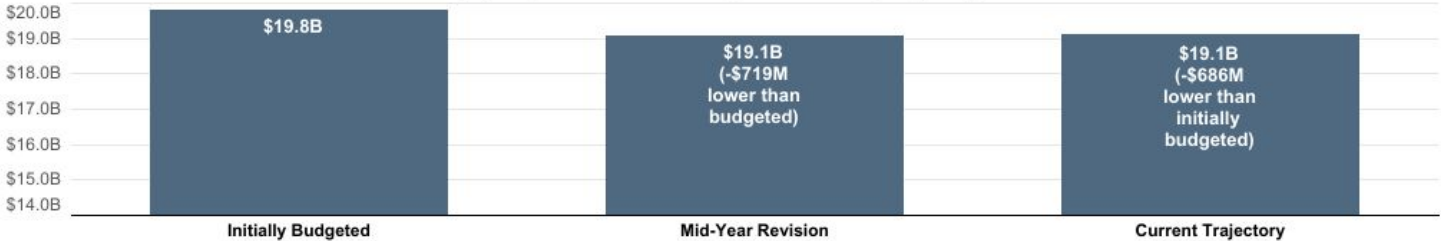
Total Collections amount to



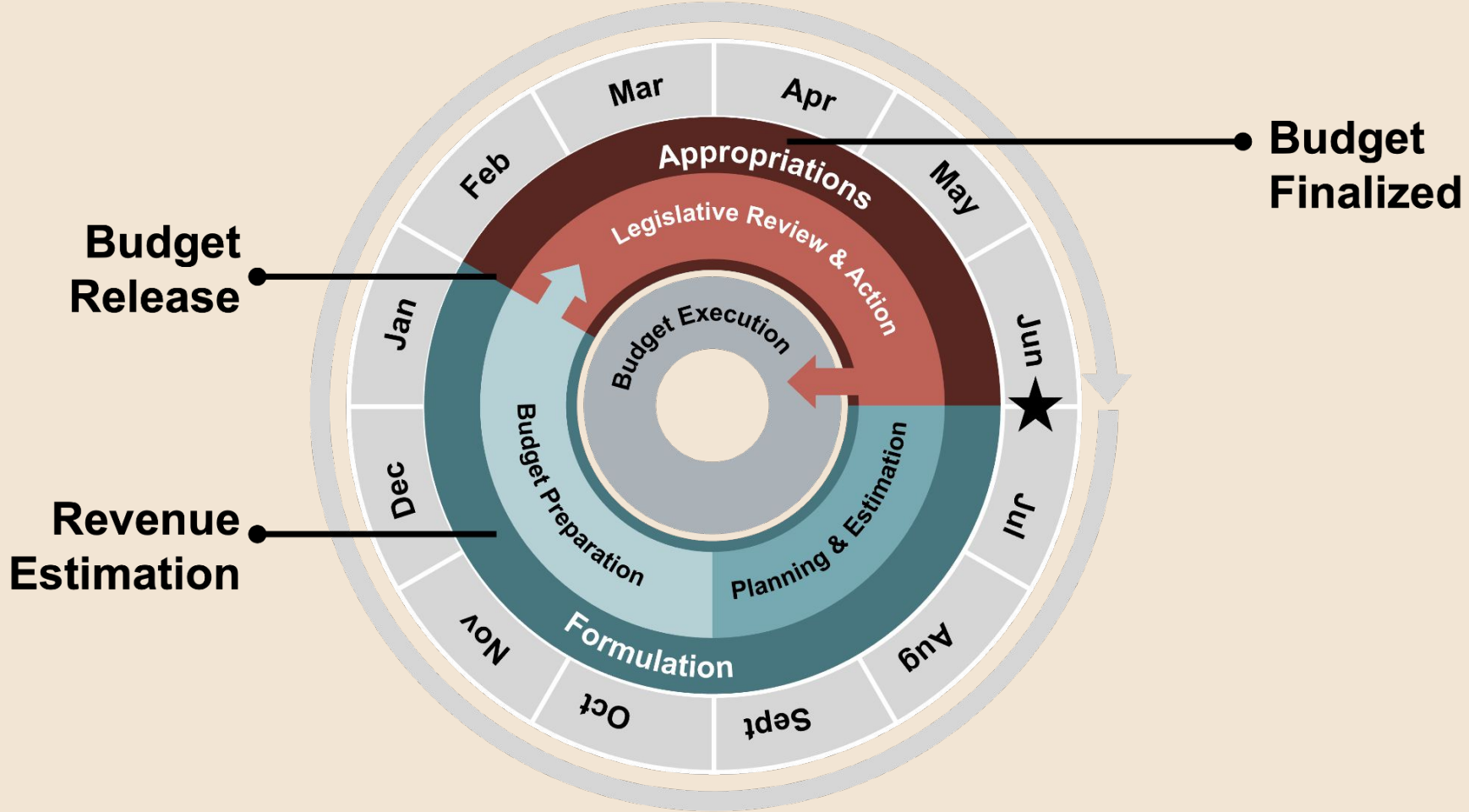
of the \$22.7B in total budgeted revenue for the current fiscal year.

Revised General Fund Projections

The FY 2025 budget recommendation released in February 2024 revised the state's official FY 2024 revenue projection. The Budget anticipates collecting about \$719 million less in General Fund revenue than previously budgeted for FY 2024. The chart below displays the initial FY 2024 General Fund revenue projection, the new revised estimate, and the actual trajectory through the most recent month available.



Note: Collections are reported on an accrual basis, which means that collections for FY 2024 are represented by the collections reports for Aug '23-Jul '24. Current trajectory is based on the year-to-date undercollections as a % of year-to-date budgeted collections for the General Fund.
Source: Tennessee Department of Finance & Administration's monthly revenue collections reports

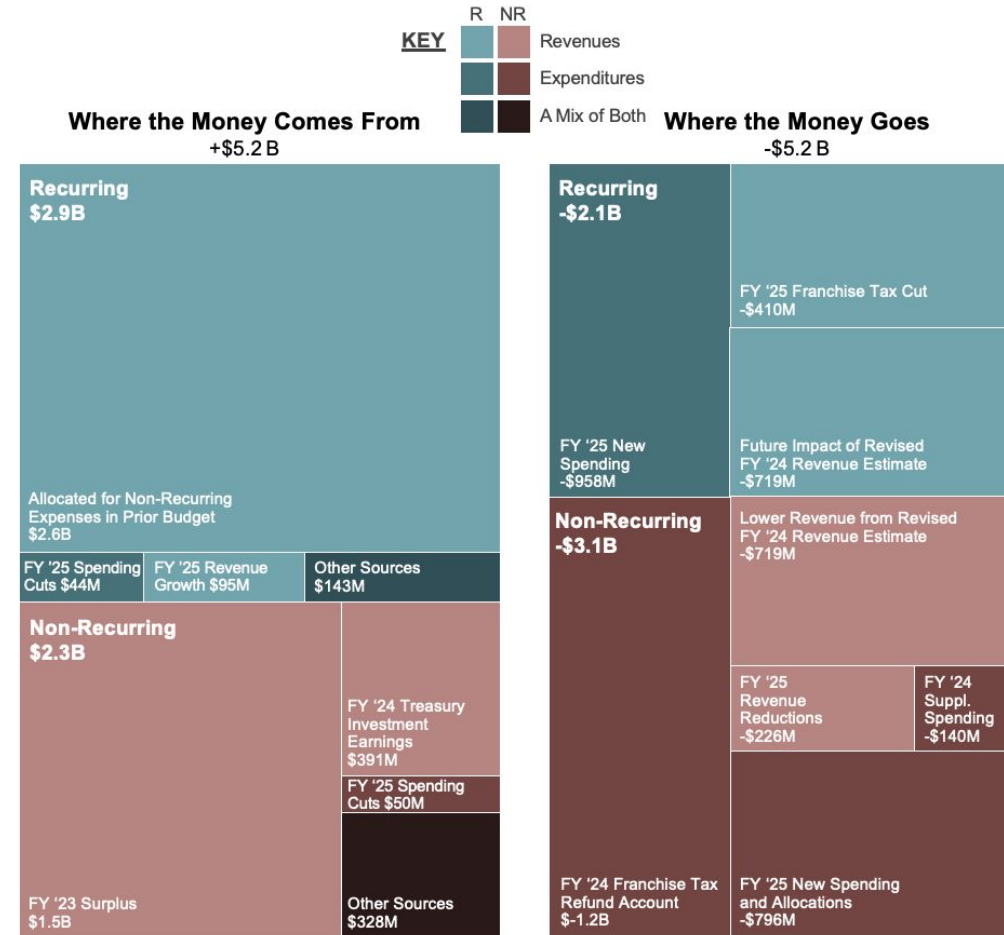


The Big Picture

Where the Money Comes From and Where It Goes

Gov. Lee's FY 2025 Budget Recommendation — Where the Money Comes from and Where It Goes

Changes to General Fund Revenues & Expenditures in FYs 2024-2025 vs. Enacted FY 2024 Budget



Tennessee's FY 2025 Budget Expects \$719 Million Less Revenue in FY 2024 Than Previously Projected

TN Dept. of Revenue Tax General Fund Collections — Actuals and Projections (FYs 2022-2025)

KEY

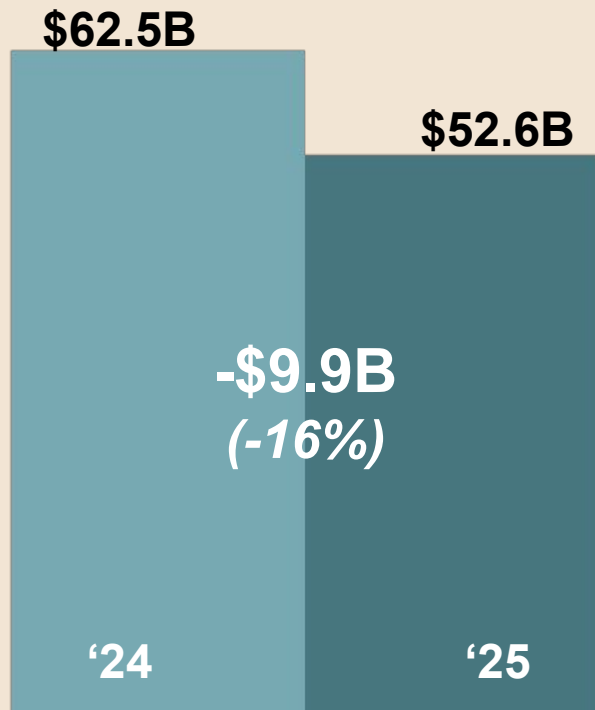
- Actual Collections
- Prior Budgeted Estimates*
- FY 2025 Budget Estimates



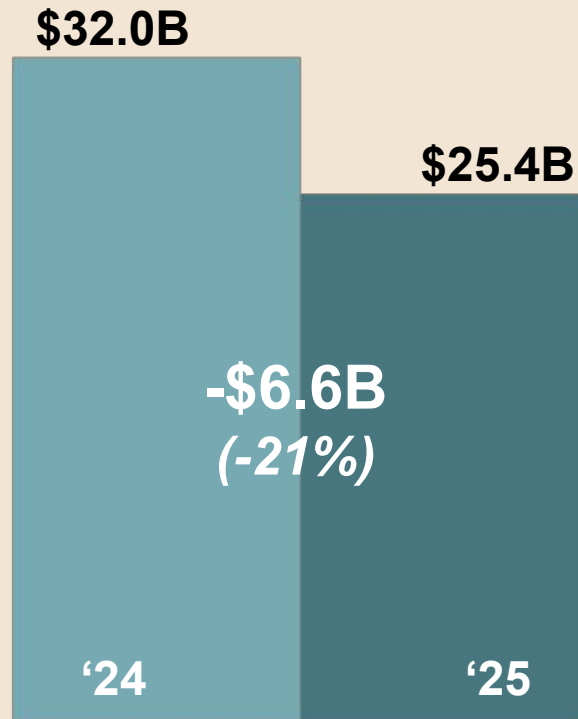
*FY 2023 reflects the final mid-year revised estimate and FY 2024 is the July 1, 2023 budgeted estimate.

Sources: Budget Overview for the FY 2025 Tennessee State Budget

All Sources

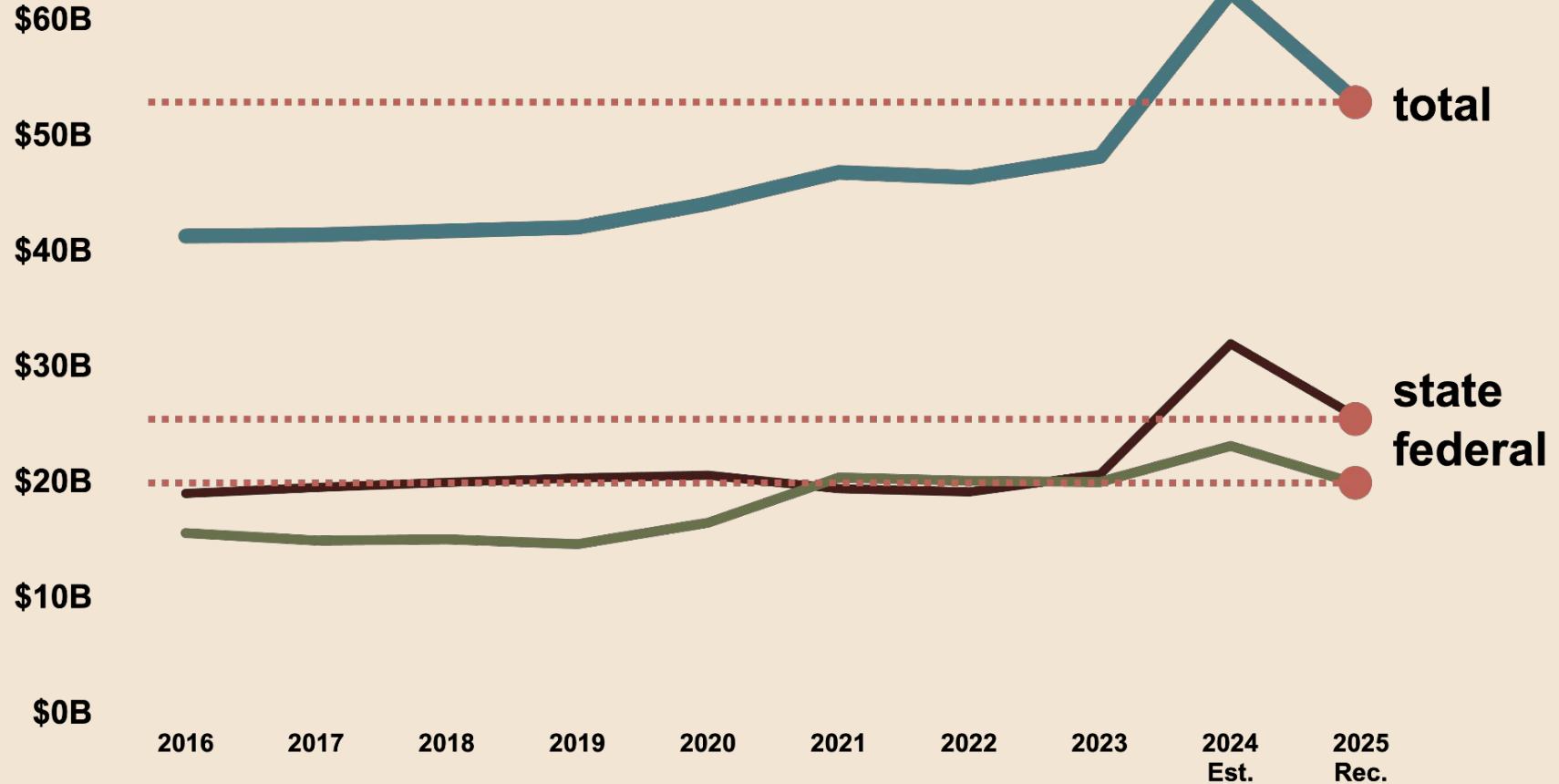


State Only



State Budget Over Time

(adjusted for inflation)



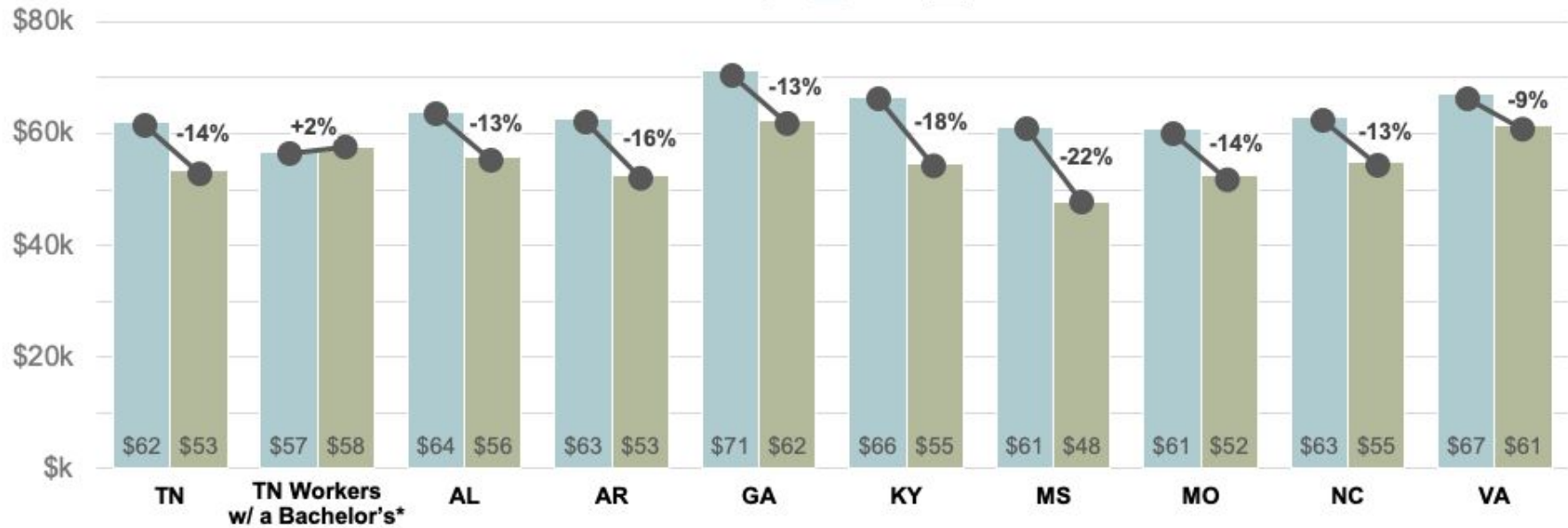
Context

Proposal: \$125M for Teacher Pay Raises

Average Public School Teacher Pay in TN and Neighboring States Fell Behind Inflation Over the Last 12 Years

Avg. Public School Teacher Salary in Tennessee and Neighboring States (Adjusted for Inflation) (2010 v. 2022)

School Year Ending: 2010 2022



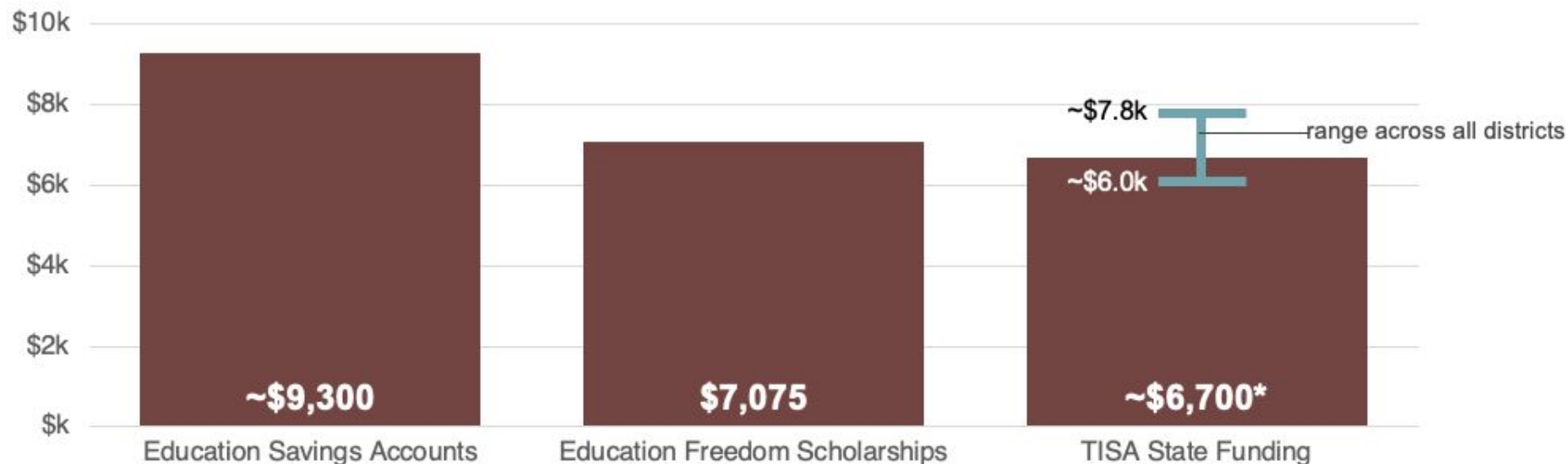
Note: Adjusted amounts are in 2022 dollars using the CPI-U. *Median earnings among Tennesseans 25+ with a bachelor's degree and earnings.
Source: National Education Association's Estimates of School Statistics, U.S. Bureau of Labor Statistics, and the U.S. Census

Context

Proposal: \$144M for "Education Freedom Scholarships"

Proposed Per Pupil State Funding for Education Freedom Scholarships More Than TISA But Less than ESAs

Estimated FY 2025 State Per Pupil Funding by Program



*Excludes any local funding. Notes: FY 2025 Education Savings Accounts (ESAs) and the Tennessee Investment in Student Achievement (TISA) estimates were calculated by the Sycamore Institute by applying the proposed FY 2025 TISA base funding amount to actual FY 2024 TISA calculation data — including base, weights, and direct funding. Per pupil state funding for TISA is equal to the state share of the statewide TISA calculation, which is 70% of the per pupil base, 70% of weights and 100% of direct funding (the actual share for each district varies based on a county's fiscal capacity). Per pupil state funding for ESAs is equal to the average statewide per pupil amount calculated under TISA — including the state and local shares of the base, weights, and direct funding.

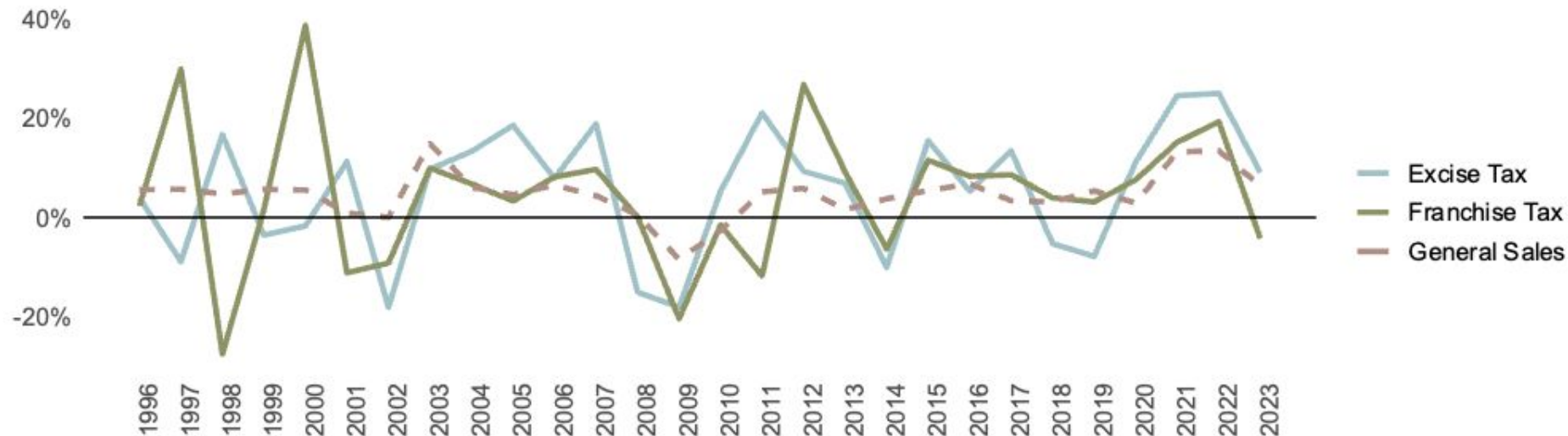
Source: The Sycamore Institute's analysis of information from the Tennessee Department of Education

Context

Proposal: \$410M Annual Corp. Tax Cut

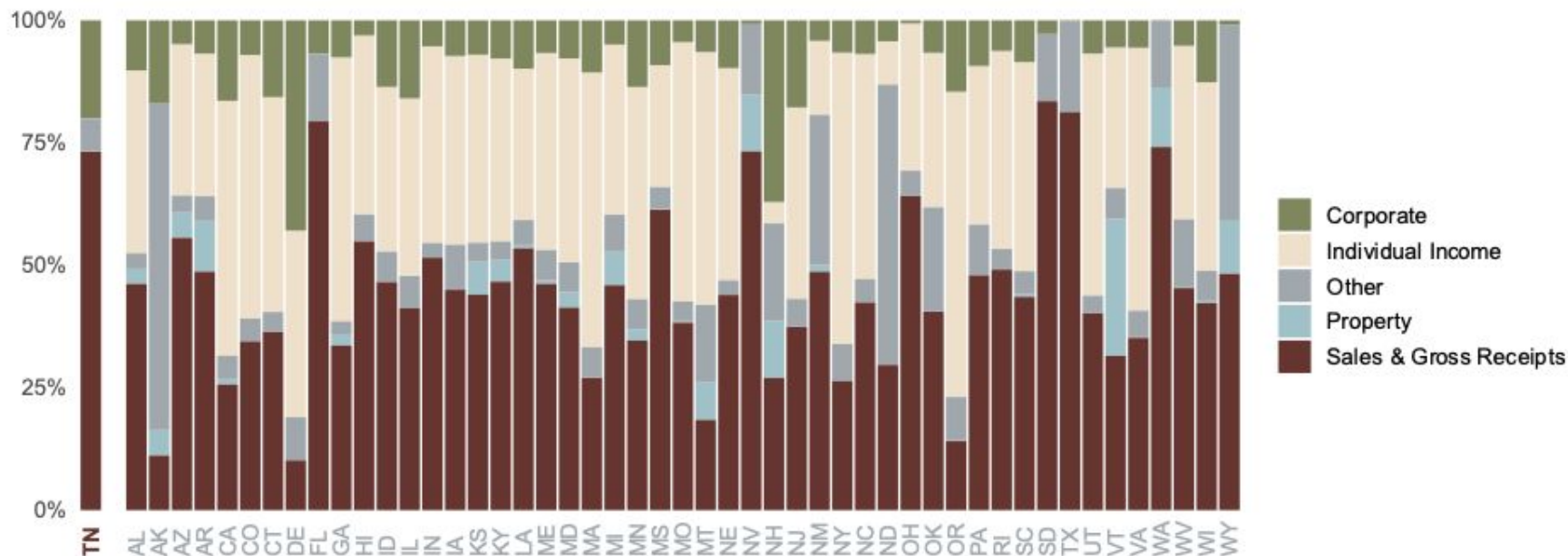
Tennessee's Franchise & Excise Tax Collections Were More Volatile than the Sales Tax Over the Last Three Decades

Annual Change in Tennessee Collections by State Tax (FYs 1996-2023)



Tennessee Relies More Heavily on Sales and Corporate Taxes Than Do Most Other States

State Tax Collections by State and Tax Category (FY 2022)



The corporate category is a total of the Census' corporate income and corporate license categories, including TN's franchise and excise tax collections. The other category includes all other state tax and license revenue.

Source: The Sycamore Institute's analysis of 2022 state revenue data from the U.S. Census Bureau

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HOW WE ANALYZE THE STATE BUDGET

May 2024

Since 1913...

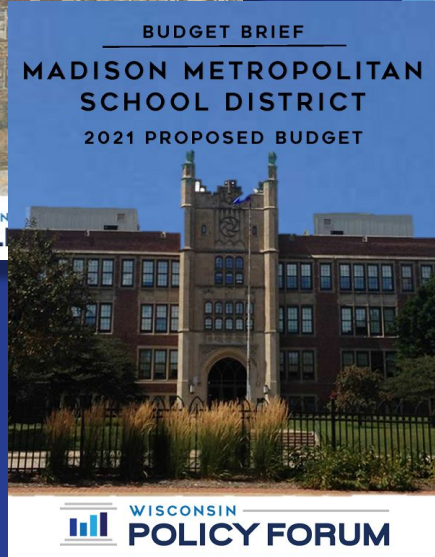
Nonpartisan Research

Informed &
Impartial Analysis

Data-Driven Decisions
Thoughtful Debate



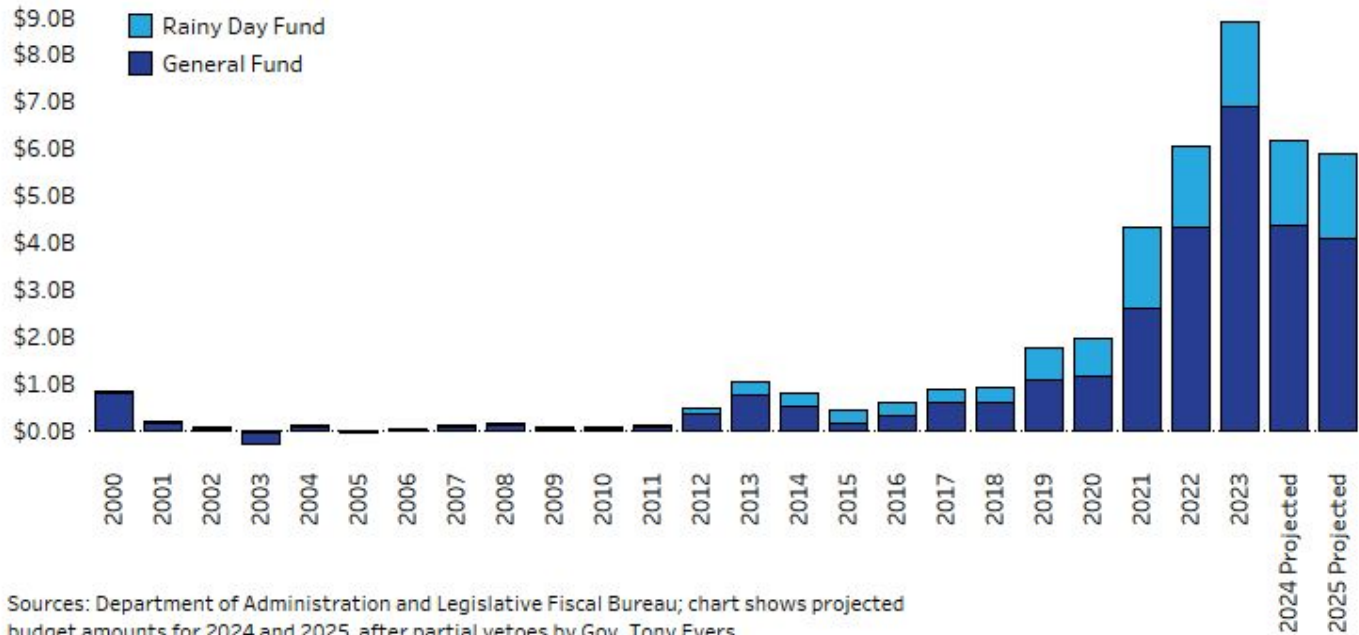
BUDGET BRIEFS



WE WATCH REVENUES & RESERVES

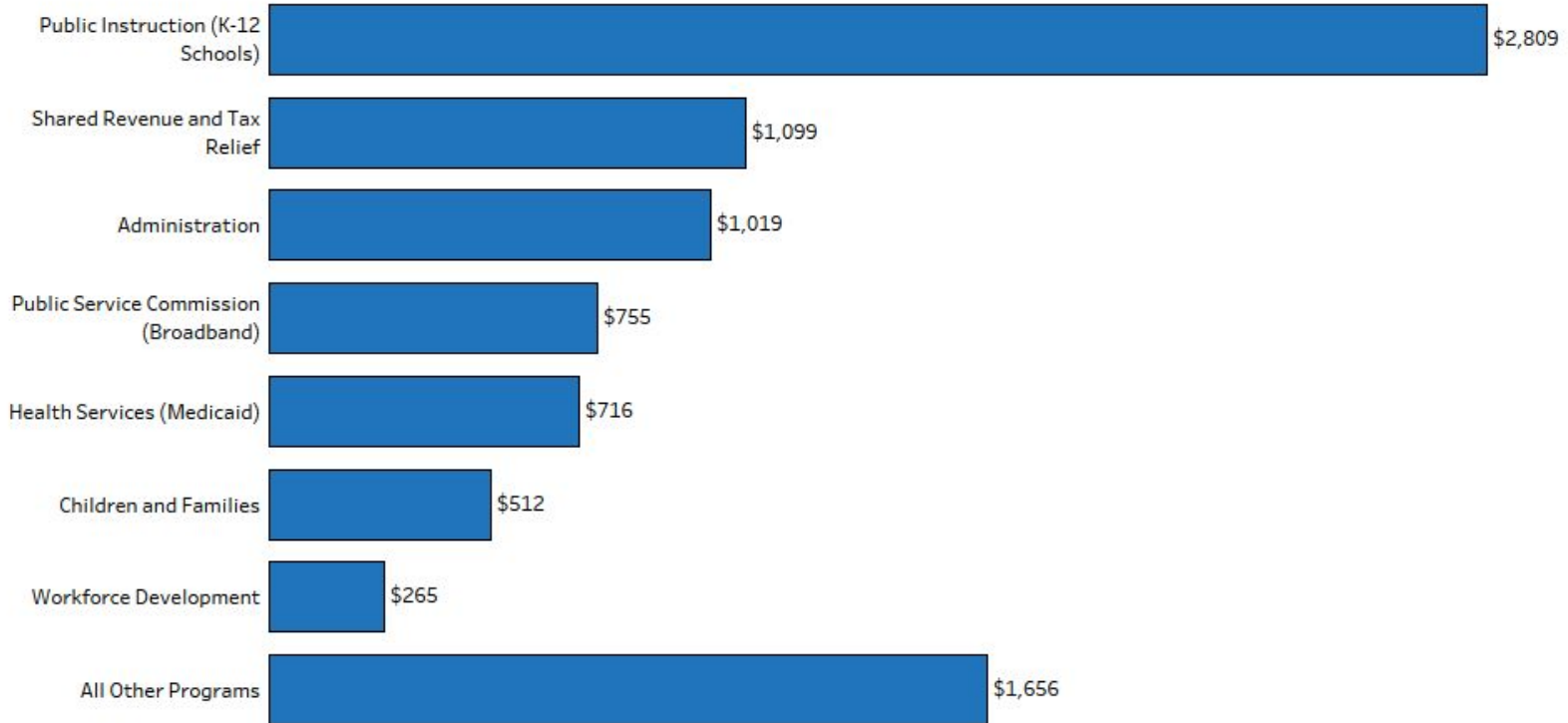
Figure 2: State Reserves Would Fall But Remain Sizable

State general and rainy day fund balances by year (nominal dollars)



WE FOCUS ON BIG SPENDING ITEMS

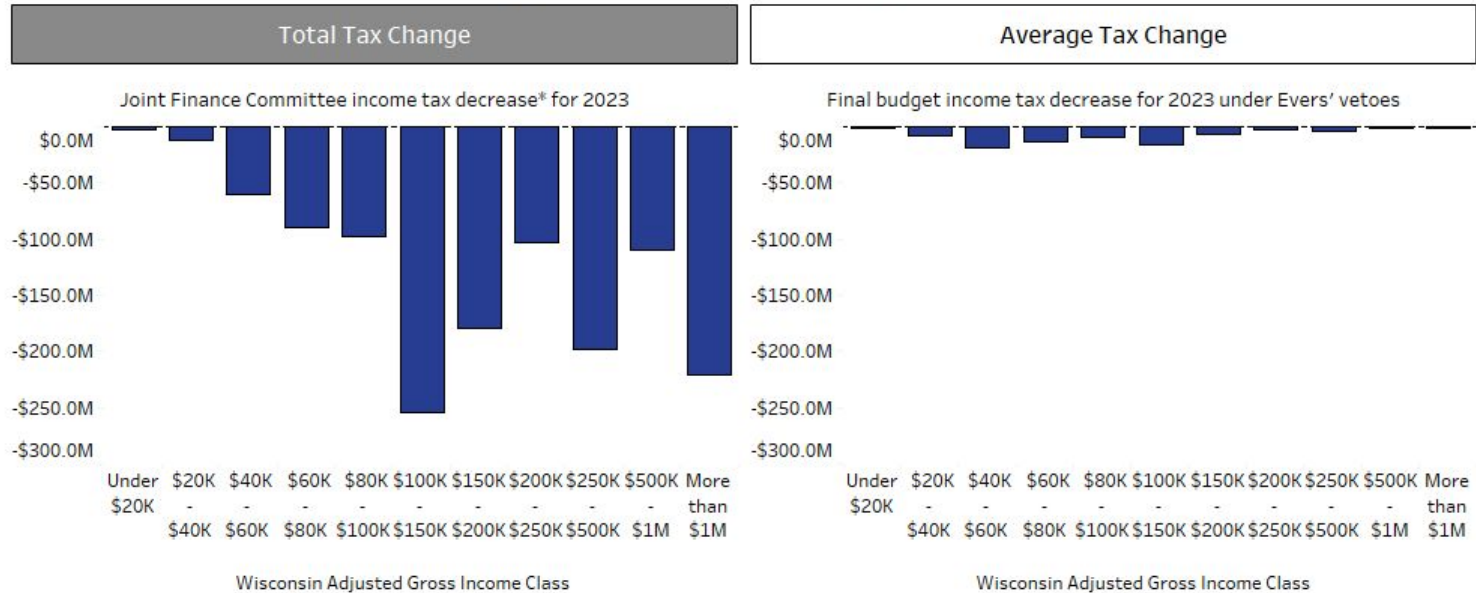
State general fund spending increases by area (in millions), 2023-25



WE COMPARE COMPETING PLANS

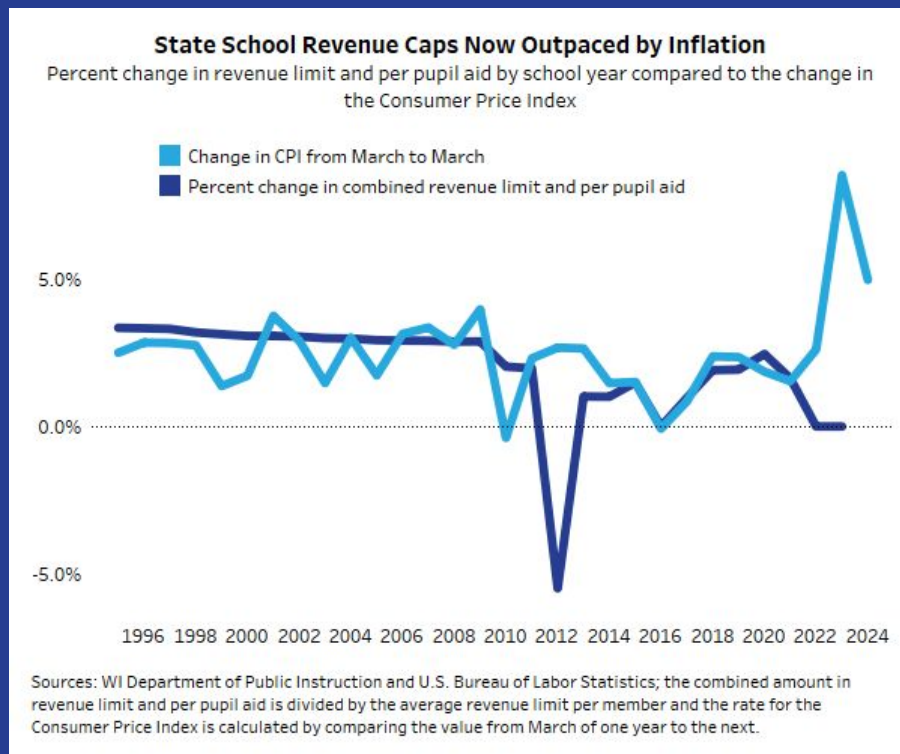
Figure 4: Plans Would Impact Taxpayers Differently By Income Level

Amount of total income tax change (y-axis) compared to current law by adjusted gross income class of tax filer (x-axis)



Sources: Wisconsin Department of Revenue and Legislative Fiscal Bureau. *Does not include an estimated \$22.6 million going to out-of-state corporate shareholders.

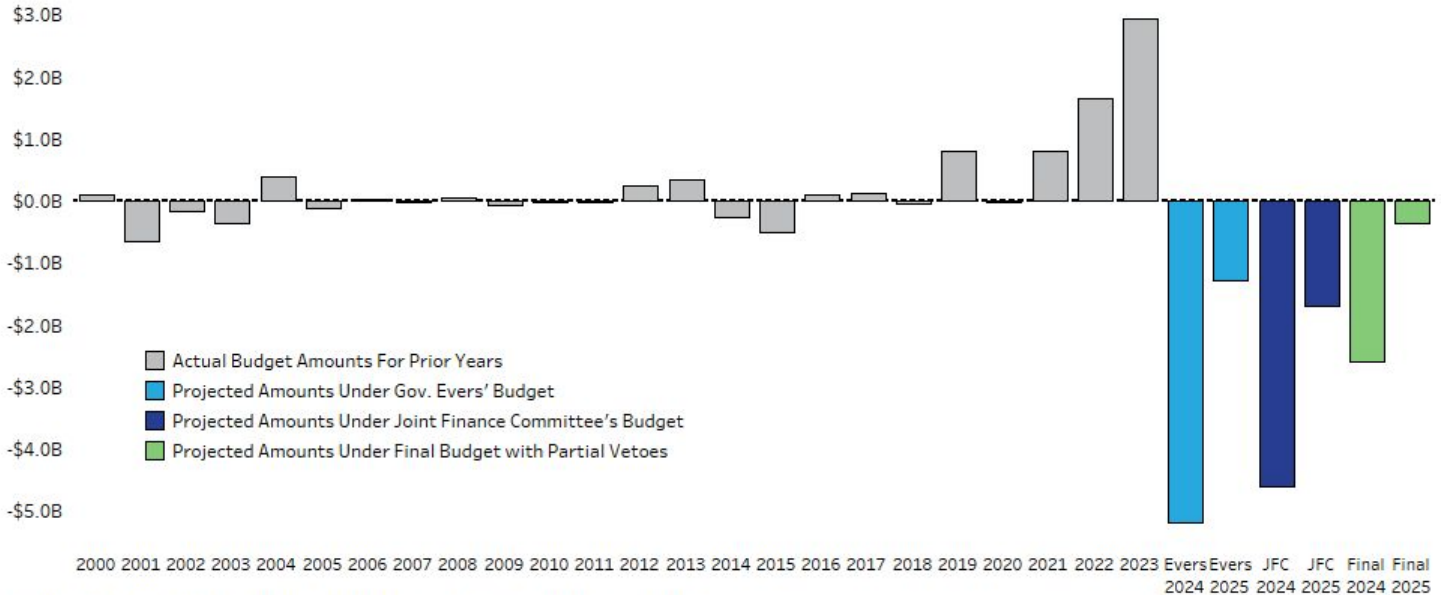
WE CONSIDER LOCAL SERVICES



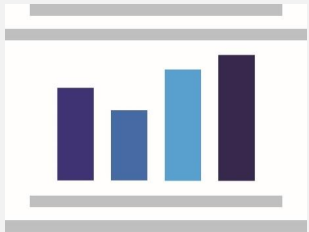
WE ALSO STRESS FISCAL RESPONSIBILITY

Figure 3: Final Budget Leaves Smaller Gap Between State Spending and Revenues

General fund revenues minus net appropriations in billions (nominal dollars)



Sources: Department of Administration, Legislative Fiscal Bureau, and WPF calculations



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Next Up
**Creating &
Launching the
North Carolina
Resilience
Index**

June 20 at 11 AM PT //
2 PM ET



**STATES FOR
THE FUTURE**

Virtual Community Discussion



NC Pandemic
Recovery Office

Kiel Kinkade and Natalie Garrett from the North Carolina Pandemic Recovery Office will share their experience with building and launching the North Carolina Resilience Index, which evaluates counties' ability to withstand and bounce back from major challenges.

Register: statesforthefuture.org/events