

# The

Sorting  
Out Fact  
From  
Fiction  
in the  
Tax  
Debate

The state's revenue growth is not keeping pace with the state's overall growth ... while the demand for and cost of providing services is growing at a rate equal to the rate of economic growth.

# Word\*

**\*T for taxes, T for Tennessee**

by State Representative Matt Kisber

**T**imes have changed since I was first elected to the state legislature 17 years ago. In those days you couldn't find a politician within shouting distance of the State Capitol who would ever consider uttering the "T" word in public—that's *T* for taxes.

But today, as we face what may be the greatest threat to the stability and security of Tennessee's budget, it's the hottest topic of discussion across the state.

From the Old Country Store in my hometown of Jackson to the governor's office in Nashville, the talk is of taxes—how the revenue state taxes generate should be spent and what reforms, if any, are needed in the way state taxes are collected.

The talk boils down to the issue of fairness, both in how state taxes should be collected and how the funds should be spent.

Because of my service as chairman of the House Finance, Ways, and Means Committee, I was asked this summer to co-chair a special business tax study committee attempting to seek out the truth about our state's budget. In recent months, ever since the governor announced that major reform in the tax code was needed, the rumor mill has been working overtime.

On the one hand, we have heard talk of a state budget crisis—tax collections are down, the state has less to spend, major cuts in state spending must be made immediately, and the crisis will only get worse if our state does not overhaul the tax code.

On the other hand, we have heard talk that the crisis is all smoke and mirrors, and that deeper spending cuts would make up for the shortfall.

When talk like this heats up, political tempers flare, making it difficult at times to sort out truth from fiction.

The job of the Business Tax Committee is to sort out the truth. My parents taught me the truth ultimately leads us all down the path we should take. Getting to the truth about our state's budgetary affairs is no different. Once the committee has finished its work in late October, I believe the path we should take will be clearly marked. With the benefit of only a few of the hearings, elements of the truth are already starting to become quite clear.

I am convinced there is a state budget crisis, not merely a temporary shortfall.

While I believe there are some further spending cuts that can be made, a fundamental change in our tax code is needed to ensure the viability of programs that support education, health care, and public

safety—issues that affect a Tennessee family's essential way of life.

Some people think this is a spending problem. While per capita income growth puts Tennessee at 36th in the country, our per capita spending by state government is 47th, and our combined state and local taxes rank 50th. These are not indicators of an out-of-control spending problem.

Those of us on the committee have discovered through expert testimony a fundamental flaw in the state's tax code, compounded by a cycle of growth that undermines the very foundation of the state's budget and threatens to damage the state's financial credit rating over the long term.

The state's tax revenue growth is not keeping pace with the state's overall economic growth, but the demand for state services and cost of providing those services are growing at a rate equal to the rate of the state's economic growth. It is costing the state more to provide the same level of services, while the state is collecting less than what it needs to keep up.

Suggestions that Tennessee's budget is growing by over \$500 million a year do not tell the true story. Tennessee employs one of the most conservative budget approaches in the country. That is one reason we are one of only nine states to possess a triple-A bond rating, the highest fiscal stamp of approval a state can receive. We have a history of being a very fiscally conservative state. We operate with a comprehensive budget which accounts for every dollar that passes through a state agency, including many non-tax dollars.

College tuition, license fees, federal funds that flow directly to recipients, such as food stamps, and intergovernmental transfers, such as rent and supplies transferred from one agency to another, are all accounted for in the state's total budget figure but are not funded by state tax receipts. This makes the total budget appear much larger than total tax receipts and generates considerable confusion among those who do not understand the differences.

During Governor Sundquist's administration, the total budget has increased by \$3.2 billion. Someone less knowledgeable about how our budget process works would surmise this means there is ample money available to address the state's

needed services. In reality, here's how this total amount breaks down:

- Just under half of the increase, \$1.4 billion, represents federal dollars over which we have little or no control—federal mandates placed on state and federally funded programs such as food stamps received directly by the recipient.
- A \$300 million portion represents current services such as higher education tuition payments made by students. Tuition amounts have dramatically increased as a result of our failure to adequately fund higher education, putting a greater burden on students and their families.



- The sum of \$606 million has gone to the Basic Education Program. This is not discretionary. We agreed to do this to get out of a court lawsuit on education funding.
- A total of \$400 million represents the state's share of TennCare. The program has saved our state hundreds of millions of dollars over the former Medicaid program, which most states still operate. Over one third of the total TennCare amount represents contribution reductions made by the federal government because of the significant increase in Tennesseans' per capita incomes over the past decade.
- A total of \$43 million is the money the federal courts have ordered us to spend on improvements to our system of mental health and mental retardation.
- Finally, \$75 million represents the amount we have spent on improving and expanding our prison system. In the 1980s the federal courts made Ten-

nessee spend hundreds of millions of dollars updating our prison system. We must maintain it to fill current needs.

These items account for almost 90 percent of the increase during the Sundquist years. The remainder has been spent on welfare reform to help welfare recipients become productive contributors to Tennessee's economy.

Some of the remainder has been directed to children's services and improvements in technology to make state government operate more efficiently.

We have moved beyond a solution that relies simply on cutting spending. Cutting assistance to education and local governments adds to the existing pressures on the local property tax, something no one wants to do. The state must find a way to keep the rate of revenue growth at the same pace as economic growth.

Raising the sales tax, often the action taken to attempt to keep pace with the growing economy, is also not the answer.

In the coming weeks, the Business Tax Committee will study proposals raised by interest groups and political leaders regarding tax code reform in an effort to learn the truth about what reform will mean to the economy and Tennesseans' way of life.

The committee has identified and is studying arguments including what to do about those who pay no taxes, how to impose low tax rates that allow us to be competitive with other states for business, and how to tie revenue growth more closely to economic growth, generating the revenue needed to fund the three basic areas that most impact Tennesseans—education, health care and public safety—well into the future.

As we move this debate forward, I ask that cooler heads and truth prevail. The decisions that must be made will affect all Tennesseans; therefore, all Tennesseans need to engage in a meaningful debate.

I invite each of you to follow the work of the committee. Let your voice be heard, and let's all agree to move forward in a direction led by the truth that makes for a better way of life for all Tennesseans. ■

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