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Jennings A. Jones College of Business
Middle Tennessee State University
Box 102
Murfreesboro, TN 37132
(615) 898-2610
email: kkulp@mtsu.edu

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EDITOR'S NOTE

Not only is the recession hurting the national economy, but it is also slamming the Tennessee economy.

Before knowing that Tennessee would receive federal stimulus money, Governor Bredesen anticipated cutting 2,300 jobs from the current roll of 48,000 state employees. However, Tennesseans breathed a sigh of relief when the state became entitled to receive $4.5 billion from the federal stimulus package. Briefly, it appeared that the state could avoid painful job cuts, thereby relying on only attrition (not filling new job vacancies) to help balance the budget.

However, the deteriorating Tennessee economy has only worsened, causing Bredesen to put job cuts back on the table. Next year's state budget, originally set by Bredesen at $29 billion back in March and based on receipt of federal stimulus money, appears in jeopardy. That budget would take effect July 1 and run through June 30, 2010.

In April, overall state revenue fell for the ninth straight month, and state sales taxes (which account for about 60 percent of all revenue) fell for the 11th straight month. April 2009 sales tax revenues fell more than 10 percent compared to April 2008.

Tax revenues for Tennessee have fallen about $1.2 billion below December estimates. This is a historic drop: we could come up between $80 million and $180 million short before the end of this fiscal year on June 30.

Some economists fear next year could be worse. Noted UT economist Bill Fox, who frequently consults with the governor and state lawmakers over budgetary matters, expects state revenues to fall an additional $108 million and unemployment to reach at least 10.5 percent during the upcoming budget year, running from July 1, 2009, through June 30, 2010.

Bredesen had hoped the federal stimulus money would tide the state over during the next two years, making cuts in state jobs and departments easier in the face of a shrinking state government. But the worsening revenue collections and projections have thrown cold water on that scenario. In short, federal money will help, but it will not save a sinking ship.

So how are we to deal with the additional shortfall? First, money will have to be taken from the state's $750 million rainy day fund. Second, laying off some state workers, as well as cutting work hours of others, is being considered. Both K-12 and higher education, however, are to be spared from cuts this year—higher education only because receipt of federal stimulus money required state funding to be at its pre-recession level.

The dramatic decrease in sales tax revenues has wreaked havoc on Tennessee's budget this year, and it is highly likely that it will do the same next year and beyond. Tennessee's sales taxes, which constitute the bulk of the state's revenues, have been historically unable to adequately fund state government, and this situation is made even worse during a recession. Despite having one of the highest rates in the nation, Tennessee's sales taxes have been and are unable to maintain existing levels of state services. Therefore, if and when the recession ends, don't expect dramatic improvement for Tennessee.

—Horace Johns, executive editor, professor of business law, MTSU