How Does Tennessee’s Budget Work?

Each year, Tennessee’s Governor presents his proposed budget for the next fiscal year, simply titled The Budget, to the General Assembly for approval. The Budget is prepared using intricate accounting principles set out by the Governmental Accounting Standards Board (GASB). Generally, however, one needs merely to grasp the basic nature of how budgets work: budgets show how much money the governments raise, how they raise that money, how much money they spend, and on what programs they spend that money. Basically, money in, money out.

Money In

Tennessee brings money in from four broad sources:

1. General Tax Revenue
2. Bonds
3. Federal Revenue
4. Current Services and Other Revenue.

As revenue is collected, it is deposited into one of several funds to support the appropriations enacted by the General Assembly. The appropriations are made based on revenue estimates contained in The Budget, or on revised estimates presented to the General Assembly prior to passage of the Appropriations Act.

For ease of understanding, The Budget summarizes expenditures and revenues by grouping all programs into one of six categories:

1. General Fund
2. Highway Fund (Department of Transportation)
3. Facilities Revolving Fund
4. Local Government Fund (Cities and Counties State-Shared Taxes)
5. Debt Services Fund (Debt Service Requirements)
6. Capital Projects Fund (Capital Outlay Program)
Money Out

Based upon agencies’ requests, the Governor recommends in *The Budget* how the estimated revenue should be expended in the coming fiscal year. The recommendations are reported in the Program Statements by Functional Area section of *The Budget*. The recommended expenditures are also reported by program type in the Budget Overview section of *The Budget*, where they are compared to the estimated expenditures for the current fiscal year and actual expenditures for the prior fiscal year.

The General Assembly is responsible for making the actual budget appropriations using a bill known as an Appropriations Act. The actual appropriations may or may not agree with the Governor’s recommendations.

Once the Appropriation Act becomes law, the Department of Finance and Administration’s Division of Budget, with input from fiscal personnel from the various agencies, reconciles the Appropriations Act with the recommended budget. Tennessee’s Constitution requires the state to maintain a balanced budget.

Budget Discretion

In *The Budget* for 2002, the Governor recommended expenditures of $19.92 billion. However, most of the estimated revenue used to fund the expenditures recommended in the budget comes from sources other than state taxes:

- $6.97 billion of the estimated revenue funding the budget comes from the federal government.
- $3.09 billion of the estimated revenue comes from current services or other non-tax sources.
- $1.28 billion of the estimated revenue comes from interdepartmental revenue.
- $1.28 billion is estimated revenue from current services. This is money collected by a specific activity to support that activity. It comes from licenses, user fees, etc.
- $528 million in estimated revenue is from higher education tuition and fees.
- $289 million of the estimated revenue comes from the anticipated sale of bonds.

So, the total recommended state appropriation equaled $9.57 billion. However, the state has little discretion over much of that money as well:

- $3.44 billion is money earmarked (dedicated) to the education trust fund.
- $691 million goes directly to local governments through state-shared taxes.
- $667 million goes directly to paying for the state’s highway and transportation services.
- $216 million dollars is earmarked for various other programs.

Many programs face special spending controls related to past and current lawsuits or federal spending requirements. Of the $5.97 billion in recommended appropriations from state taxes, the administration only has full discretion over $372 million, which is less than two percent of the state’s total budget.

Comparison of Total State Budget
Total State Appropriation & Share of Appropriation Over Which the State has Full Discretion, 2001-2002

<table>
<thead>
<tr>
<th>Total State Budget - All Funding Sources</th>
<th>$19,917,323,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Federal Revenue</td>
<td>6,972,673,400</td>
</tr>
<tr>
<td>Current Services:</td>
<td></td>
</tr>
<tr>
<td>Interdepartmental Revenue</td>
<td>1,280,457,900</td>
</tr>
<tr>
<td>Other Departmental Revenue</td>
<td>1,280,621,000</td>
</tr>
<tr>
<td>Higher Education Student Tuition and Fees</td>
<td>528,310,800</td>
</tr>
<tr>
<td>Bonds</td>
<td>269,000,000</td>
</tr>
<tr>
<td>Total State Appropriation</td>
<td>$9,566,260,300</td>
</tr>
</tbody>
</table>

| State Appropriation Total with Full Discretion | $3,71,916,100 |

Source: The Budget and the Tennessee Department of Finance and Administration