

TACIR Fast Facts

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This Issue:

Understanding Budget Growth

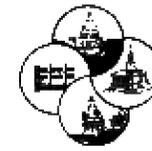
TACIR Fast Facts
Tennessee Advisory Commission on
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TACIR Fast Facts

TACIR recently released The Citizens' Guide to the Tennessee Budget. The Guide describes

- *How Tennessee's budget document is organized*
- *How the budget works*
- *The process of creating the budget*
- *How the executive and legislative branches interact to resolve differences before the budget is signed into law*
- *How the budget is funded*
- *The constraints the state faces in cutting the budget*
- *How and why the budget grows.*

This issue of Fast Facts provides a summary of the Guide's discussion of why budgets grow and how much Tennessee's budget has grown.

Understanding Budget Growth

Cities grow. Our state's population grows. The number of children attending our schools grows. No one seems overly shocked by this growth. Actually, for the most part, we expect and encourage reasonable growth. We should expect our state budget to grow; the challenge is to make sure that the growth is reasonable and that it supports the desires and needs of the public.

Why Do Budgets Grow?

State budgets grow for five main reasons:

1. Inflation
2. Population Growth
3. New or Enhanced Services
4. Past Neglect
5. Changes in the way the Budget is Presented

Inflation

Inflation affects all spending. It costs more to buy a car today than it did twenty years ago. Thus, you got a lot more car for \$15,000 then than you would now. Likewise, it costs more to provide most government services today than it did twenty years ago. Adjusting budget amounts for inflation provides a more meaningful figure by which to measure changes in government spending over long periods of time. In addition to general price increases, certain resources, such as teaching resources, have been subjected to increased competitive price pressures (higher wage levels) as a result of a growing demand for more highly educated workers.

Population Growth

The number of people served determines much of the total cost associated with providing government services. As Tennessee's population has grown, so too have program costs. More people

- The state's ability to cut the budget is limited partly by federal mandates, state earmarking, and court orders.

- Tennessee has been very successful at raising revenue from non-tax sources, primarily federal funding and payments from utility industries.

- From 1970 to 2000, all southern states increased their level of state and local government taxes compared to the US average, but Tennessee did so at a slower pace than its sister states.

TACIR Publication Policy

Staff Information Reports, Staff Briefs, Staff Technical Reports, Staff Working Papers and TACIR Fast Facts are issued to promote the mission and objectives of the Commission. These reports are intended to share information and research findings relevant to important public policy issues in an attempt to promote wider understanding. Only reports clearly labeled as "Commission Reports" represent the official position of the Commission.

means more roads on which those people will drive, more highway patrol troopers to protect those people, more drivers' license branches, etc. When you have more people, it costs more just to maintain the current level of service.

As the total population goes up, there are also increases in those portions of the population that require more government services. For example, more people mean more children, which means more schools and teachers.

New or Enhanced Services

Budgets also grow because of increases in the demand for services or for enhancements to services. Service growth can result from pressure to:

1. Enhance service levels to meet the demands of the state's residents.
2. Remain competitive with other states.
3. Comply with requirements for federal-state program participation or federal mandates.
4. Comply with court orders.

Neglect

Budgets also grow when legislatures try to repair the damage caused by years of funding neglect. Neglect can be in the form of concrete, physical neglect, such as failing to spend the money necessary to maintain an adequate infrastructure. One can either spend a reasonable amount of money each year to maintain a bridge, or one can spend a lot of money at one time to replace that bridge when it is no longer safe to use. Neglect can also be in the form of program neglect. For example, the large influx of funding for education that came with the passage of the Education Improvement Act in 1992 was a response to years of extremely low funding for education in Tennessee. When a program is greatly under funded, it can take a lot of money just to bring its funding to a contemporary level.

Changes in Budget Presentation

Sometimes changes in *The Budget* are as simple as changes in what information is included or how that information is presented. These changes can have a huge impact on the size of the budget. For example, prior to 1998 the value of federal food stamps distributed to Tennesseans was not reflected in the state's budget. A change in national governmental accounting standards now requires the inclusion of their value. In fiscal year 2002, this value was \$450 million. Another example is the policy decision made in

the 1981-82 budget to begin reflecting student tuition and fees as part of the higher education budget. This change added \$528 million to the 2002 budget.

Tennessee's Budget Growth

Tennessee's total budget grew from \$6.67 billion in 1988 to \$16.64 billion in 2000, an increase of nearly \$10 billion. **However, it is important to note that a very large share of that increase was from federal money sent to Tennessee, not taxes collected in Tennessee.** The federal government sent \$1.80 billion to Tennessee in 1988, compared to \$5.66 billion in 2000. Actual appropriations of Tennessee raised revenue equaled \$8.21 billion in 2000, compared to \$3.95 billion in 1988. Adjusting for inflation, it would have taken \$5.75 billion in 2000 to buy the same amount of services as \$3.95 billion would have in 1988.

While certain state expenditures grew more rapidly during individual years during the 1990s, the long-run history of spending in Tennessee reflects modest growth. Adjusting for inflation and population growth, the highest growth rate for the period 1988-2000 was for Medicaid/TennCare, at 5.9 percent. TennCare replaced Medicaid in Tennessee in 1994. Between 1994 and 2000, TennCare grew at an adjusted rate of 4.1 percent per year. This is much slower than the adjusted growth rate for Tennessee's share of Medicaid, which was 10.1 percent per year for the period 1988-1993.

Several program areas, such as corrections and higher education, had negative adjusted growth rates for the period 1988-2000.

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¹US Bureau of Economic Analysis' Consumer Price Index used to adjust for inflation. Enrollment growth used to adjust CAGR for K-12 and Higher Education; Inmate population growth used for corrections. Total state population growth used for all other program areas.

**Tennessee State Budget
 State Dollars vs. Federal Dollars
 Fiscal Years 1988 and 2000 (\$ billions)**

Revenue Source	1988	2000
State	3.95	8.21
Appropriation		
Federal Money	1.80	5.66
Total	6.67	16.64
Federal as % of Total	27%	34%

Source: *The Budget*, fiscal years 1990 and 2002.

**Growth Rate for State Appropriations
 by Program Area, 1988-2000¹**

Program Area	Rate Adjusted for Inflation and Population Growth
K-12 Education	2.1%
Higher Education	-3.1%
Health (Less Medicaid), Environment and Conservation	-0.9%
Medicaid/TennCare	5.9%
Human Services	-1.9%
Transportation	0.3%
Department of Safety	1.2%
Corrections	-6.4%
Debt Service	1.8%
State-Shared Taxes	0.0%
All Other State Programs	0.6%

Source: Tennessee Treasury Department

The TACIR Mission

To serve as a forum for the discussion and resolution of intergovernmental problems; provide high quality research support to state and local government officials in order to improve the overall quality of government in Tennessee; and to improve the effectiveness of the intergovernmental system to better serve the citizens of Tennessee.