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The direction and degree of expected change varies by revenue type (**Figure 19**):

- +3.0% gain (\$360 million) in general sales tax collections
- +1.3% gain (\$11 million) in selective sales and gross receipts taxes collections
- +2.5% gain (\$97 million) in franchise and excise tax collections from businesses
- +1.1% gain (\$18 million) in gas, fuel, and motor vehicle taxes and fees collections

### **Figure 19. FY 2023 Recommended Budget Anticipates 2.5% Growth in Total State Tax Collections**

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Estimated FY 2023 Tennessee Dept. of Revenue Collections vs. Current Estimates for FY 2022

Shows state taxes collected by the Tennessee Department of Revenue.

Source: The Sycamore Institute's analysis of the FY 2023 Tennessee State Budget (1) (3)

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### **Figure 20. Recent Supplemental Federal Funding Fueled Unprecedented Growth of Federal Money in Tennessee's Budget**

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Federal Funding in the Tennessee State Budget (FYs 2006-2023)

Source: The FY 2006-2023 State Budget Documents (1) (4)

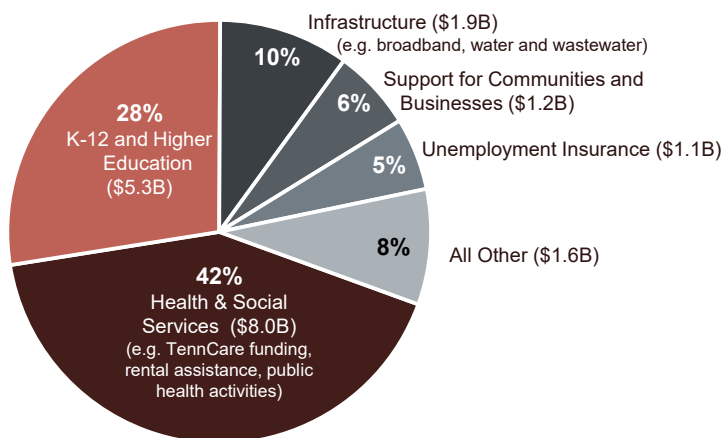
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## Federal Funds

The FY 2023 Budget reflects the historically high levels of federal funding the state has received in recent years from multiple rounds of coronavirus relief and other federal aid. State budget estimates for FY 2022 reflect an historic amount of federal funding (Figure 20). The state's budget is projected to be about as reliant on federal funding this fiscal year as it was in the wake of the Great Recession.

### Figure 21. Tennessee State Government Has Used Most of Its Recent Supplemental Federal Funding on Health/Social Services & Education

Supplemental Federal Funds to Tennessee State Government



Reflects funding from six federal laws passed between March 2020-March 2021. All categories include state-directed allocations from the \$2.4B Coronavirus Relief Fund and the \$3.8B State Fiscal Relief Fund.

Source: The Sycamore Institute's analysis of the FY 2023 Tennessee State Budget (1)

The Budget estimates state agencies have received \$19.3 billion from recent federal supplemental funding packages (Figure 21) – including over \$6 billion in flexible support. While much of this money has been allocated, spending it will in many cases take several years. Just under 42% of the total is going towards health and social service activities like additional federal support for TennCare, rental assistance, supplemental SNAP (i.e. food stamp) benefits, and public health activities. Another 27% went to K-12 and higher education to respond to the needs and effects of the pandemic. The state will spend the largest portion of its flexible funding – nearly \$2 billion – on broadband and water and sewer systems.

These numbers do not reflect the recently enacted Infrastructure Investment and Jobs Act, which increases federal infrastructure funding by over \$500 billion between FYs 2022-2026. Tennessee is expected to receive billions in additional federal dollars for water, broadband, transportation, public transit, and other infrastructure. (32) (33)

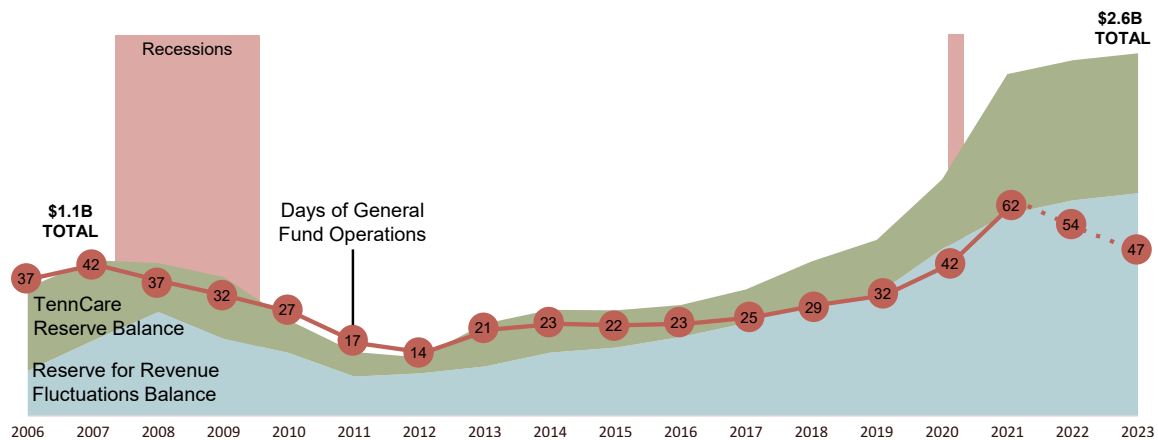
## Rainy Day Reserves

The Budget recommends a combined balance of \$2.6 billion in the Reserve for Revenue Fluctuations and the TennCare Reserve by the end of FY 2023 (Figure 22). These rainy day reserves are a tool of last resort should Tennessee need to respond to an economic downturn. Reserve balances provide a cushion during a recession, which typically increases demand for state programs and services but decreases the revenues that fund them.

- This combined balance would give the budget about 5 days more cushion than it had just before the Great Recession. At \$2.6 billion, the two reserves would cover about 47 days of state-funded General Fund operations at the governor’s recommended FY 2023 levels.
- The Budget hits that mark by adding \$50 million to the Reserve for Revenue Fluctuations in FY 2023. This deposit would grow that account to \$1.6 billion — the highest dollar amount ever.
- The Reserve for Revenue Fluctuations would exceed its statutory target by \$25 million. State law sets a target for that fund at 8% of General Fund revenues, and the FY 2023 recommended balance represents 8.1%<sup>1</sup>.

## Figure 22. Tennessee’s Rainy Day Reserves Would Reach \$2.6 Billion in FY 2023 Recommended Budget

Tennessee Rainy Day Fund Resources (FYs 2006-2023)



Note: FYs 2022-2023 “Days of General Fund Operations” are based on estimates of General Fund expenditures. Prior years are based on actual expenditures.

Source: The Sycamore Institute’s analysis of information from the FY 2006-2023 State Budget Documents (3) (1) (4) (34)

### THE SYCAMORE INSTITUTE

The Sycamore Institute is an independent, nonpartisan public policy research center for Tennessee. Sign up for email alerts at [SycamoreTN.org](https://www.SycamoreTN.org).

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<sup>i</sup> Calculated by adding Department of Revenue and Other State Revenue allocations to the General Fund, Education Fund, and Debt Service Fund minus the Gas Tax allocation to the Debt Service Fund (from page A-65 of the Budget).