

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.<sup>1</sup> This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.<sup>2</sup>



# Tennessee: Tools for Sustainable State Budgeting

<p>Long-term budget assessment: ○</p>	<p>Budget stress test: ✓</p>
	<p><b>Report:</b> Primary report not publicly available, but results summarized in "Recession Readiness in Tennessee," in "An Economic Report to the Governor of the State of Tennessee, 2019"<sup>3</sup></p> <p><b>Office:</b> Boyd Center for Business and Economic Research in the Haslam College of Business at the University of Tennessee, Knoxville</p>

## Analyses

When Tennessee elected a new governor in 2018, the executive branch commissioned the University of Tennessee's Boyd Center for Business and Economic Research to summarize the state's tax policies and revenue outlook.<sup>4</sup> The resulting report included an innovative budget stress test that employed a particularly notable treatment of spending.

Like many stress tests, the report examined multiple stress scenarios—examining how far revenue would fall if Tennessee experienced another recession on par with the 2001 dot-com bust or the more severe 2007-09 Great Recession.<sup>5</sup> But the Boyd Center analysis also included multiple spending scenarios, presenting shortfall projections based on various possible rates of expenditure increases.<sup>6</sup> This enabled the report to draw nuanced conclusions, including that “current reserves are sufficient to weather a modest 2001-style downturn” if the state limited spending growth below recent levels; but a severe downturn “would create large and growing deficits sufficient to exhaust current reserves quickly and require elimination of all non-recurrent expenditures and no recurrent expenditure growth for multiple years.”<sup>7</sup>

Tennessee has not produced a stress test since 2018 and does not publish long-term revenue and spending projections.<sup>8</sup>

## **Policy impact**

The intention of the 2018 report was to inform the decisions of a new gubernatorial administration.<sup>9</sup> Because much has changed since 2018—Tennessee’s reserves are much larger, for example, and the state has enacted substantial tax cuts—the analysis would need to be updated to continue to be of use to policymakers.<sup>10</sup>

## **Next steps**

Having already produced one high-quality stress test, the Boyd Center may be a good option to conduct these analyses on an ongoing basis. Tennessee already commissions the center to produce an annual economic report to the governor, which includes analysis of recession risk and discussion of various economic scenarios.<sup>11</sup> A stress test would be a natural addition to this analysis.

Tennessee could also task an organization with producing long-term budget assessments. Potential candidates include a legislative staff office, such as the Joint Fiscal Review Committee; an executive branch agency such as the Department of Finance & Administration; the State Funding Board, a group composed of various executive branch officials that helps estimate revenue; and outside experts such as the Boyd Center researchers.

# Endnotes

- 1 The Pew Charitable Trusts, “Tools for Sustainable State Budgeting” (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, “States’ Use of Sustainable Budgeting Tools” (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 Boyd Center for Business and Economic Research, “An Economic Report to the Governor of the State of Tennessee, January 2019” (2019), 31, <https://haslam.utk.edu/wp-content/uploads/2019/06/20190101.pdf>.
- 4 D. Bruce (director, Boyd Center for Business and Economic Research), interview with The Pew Charitable Trusts, March 29, 2023.
- 5 Boyd Center for Business and Economic Research, “An Economic Report to the Governor, 2019,” 31.
- 6 Bruce, interview.
- 7 Boyd Center for Business and Economic Research, “An Economic Report to the Governor, 2019,” 31.
- 8 Bruce, interview; The Volcker Alliance, “Tennessee Budget Report Card” (2021), [https://www.volckeralliance.org/sites/default/files/Volcker%20Alliance-StateBudgetingReport-Tearsheet-Tennesse-FY17-19\\_0.pdf](https://www.volckeralliance.org/sites/default/files/Volcker%20Alliance-StateBudgetingReport-Tearsheet-Tennesse-FY17-19_0.pdf).
- 9 Bruce, interview.
- 10 The Pew Charitable Trusts, “Fiscal 50: State Trends and Analysis, Reserves and Balances,” updated March 16, 2023, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>; Tennessee Office of the Governor, “Gov. Lee Signs Single Largest Tax Cut in Tennessee History Into Law,” news release, May 11, 2023, <https://www.tn.gov/governor/news/2023/5/11/gov-lee-signs-single-largest-tax-cut-in-tennessee-history-into-law.html>.
- 11 Boyd Center for Business and Economic Research, “An Economic Report to the Governor of the State of Tennessee, January 2023” (2023), iii, 15-18, <https://haslam.utk.edu/wp-content/uploads/2022/12/ERG23.pdf>.

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**For more information, please visit: [pewtrusts.org/fiscaltools](https://pewtrusts.org/fiscaltools)**

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## The Pew Charitable Trusts

**Contact:** Jolene Nieves Byzon, communications officer

**Email:** [jbyzon@pewtrusts.org](mailto:jbyzon@pewtrusts.org)

**Project website:** [pewtrusts.org/fiscaltools](https://pewtrusts.org/fiscaltools)

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