

A REPORT TO TENNESSEANS

Fiscal Year 2022 July 1, 2021—June 30, 2022

GOVERNOR BILL LEE'S PRIORITIES



Jobs & Rural Economic Development

To be the #1 state in the Southeast for high quality jobs.



Education & Workforce Development

To be the fastest improving state in the country.



Public Safety & Criminal Justice Reform

To promote the safety and security of Tennesseans.



Transparent & Efficient Government

To be the best managed state, providing high-quality services at the lowest possible price to taxpayers.



Healthier Tennessee

To promote healthy behavior and provide high quality services to our most vulnerable people.

State Demographics

| Year | Population | Per Capita Income | Unemployment Rate | School Year | Public School Enrollment | Public Higher Education Enrollment |
|--------------------------|------------|-------------------|-------------------|-------------|--------------------------|------------------------------------|
| 2022 | 7,051,339 | \$58,296 | 3.3% (June 2022) | 2021-2022 | 967,356 | 211,632 |
| Change from 1 year prior | +76,121 | +\$4,342 | -1.1% | 2020-2021 | -6,303 | +8,998 |

A Year of Sustained Success

The record-breaking success Tennessee enjoyed in 2021 served as the catalyst for our state's continued success in 2022. This year, Tennessee emerged as a leader among all states with one of the fastest growing economies. Statewide, Tennessee recruited approximately 100 projects, resulting in more than 16,000 job commitments and \$8.6 billion in private capital investment.

Tennesseans continue to pay among the lowest state and local tax per capita in the nation, according to *Tax Foundation*, and Tennessee holds the lowest per capita debt in the country. Companies, investors, shareholders, and executives choose Tennessee for its sound fiscal management and significant new economic investments. Tennessee's budgetary discipline has attracted meaningful investments that make the state strong and resilient.



#1 State of the Year for Business Recovery



#3 In the U.S. for the lowest state-local tax burden

Major Initiatives

The 2022 session of the General Assembly is possible most notable for the strategic investment in education that centered around an update to the state's education funding formula through the Tennessee Investment in Student Achievement (TISA) Act, a student-centered approach to funding K-12 public schools.

The TISA public school funding formula updates the way Tennessee funds public education for the first time in more than 30 years by moving from resource-based to student-based funding beginning with the 2023-2024 school year.

Through the passage of the TISA Act, Tennessee's K-12 public schools will now invest an estimated \$9 billion in education funding, including state and local funds, which includes an additional recurring state investment of \$1 billion.

Lawmakers also strengthened the state's financial position by approving a no-debt budget for fiscal year 2023 that highlights continuous efforts to cut taxes for Tennesseans, maintain fiscal responsibility, ensure public safety, and prioritize education.

Key Budget highlights include:

- \$25 million to protect victims of crime and establish "truth in sentencing" for certain violent offenses
- \$100 million for violent crime prevention, \$16 million for 100 new state troopers, and \$43.2 million to increase correctional officers' salaries
- \$650 million to help reduce unfunded pension and other post-employment benefit liabilities
- \$250 million into the state's "rainy day fund"
- \$80 million for a grocery sales tax holiday, \$68 million for a sales tax reduction on broadband supplies, and \$9 million to continued elimination of the professional privilege tax
- \$125 million to increase teacher salaries
- \$500 million in career and technical education grants for high school and middle school students
- \$88 million to expand scholarship awards

Major Initiatives By Priority



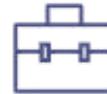
TennCare coverage for new and expecting mothers was extended from 60 days to 12 months postpartum.



The FY22 budget included \$100 million for Violent Crime Intervention Fund (VCIF) grants to local law enforcement agencies.



More than 64,000 high school seniors in the class of 2022 applied for Tennessee Promise Scholarships, a record-breaking number.



Rural counties saw nearly \$2.75 billion in capital investment and 6,000 job commitments.



In 2022, Tennessee was named the Leading State in Evaluation Leadership & Governance by *Results for America*

For additional resources visit the:

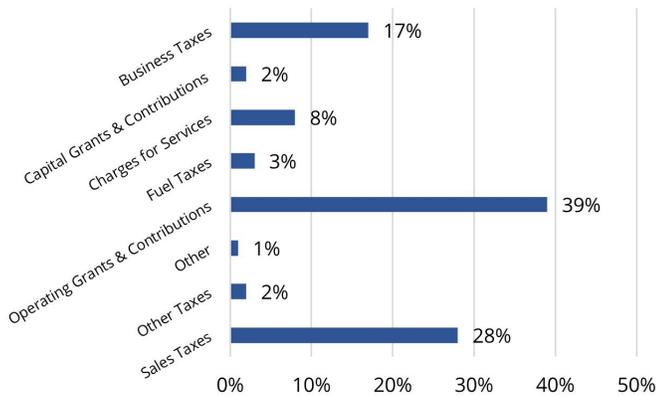
Transparent Tennessee Website

- Performance metrics for each cabinet-level department
- More than 200 department highlights that provide key facts and performance
- Searchable checkbook tool
- Salary search tool
- Interactive budget tool
- Links and guidance for open records requests
- Public information on grants and economic development subsidies and incentives

www.TN.gov/transparentTN.html

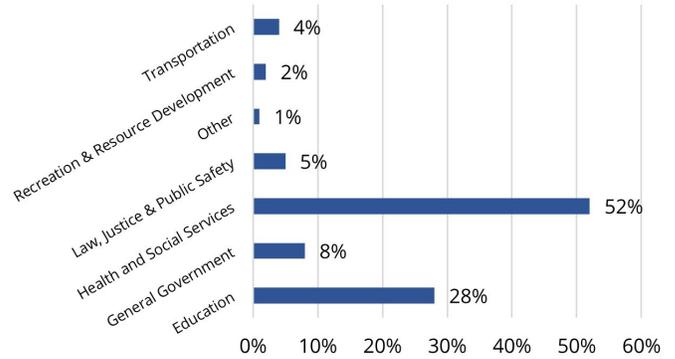


Revenues by Source-Governmental Activities



Data sourced from FY 2022 ACFR p. 24

Expenses by Function-Governmental Activities

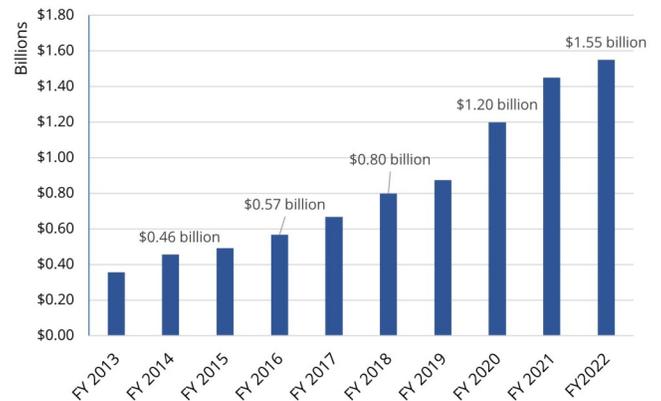


Data sourced from FY 2022 ACFR p. 23

“Rainy day” fund level: The revenue fluctuation reserve, or the “rainy day fund,” allows services to be maintained when revenue growth is slower than estimated in the budget. Amounts in the revenue fluctuation reserve may be utilized to offset state tax revenue shortfalls which may occur and for which funds are not otherwise available.

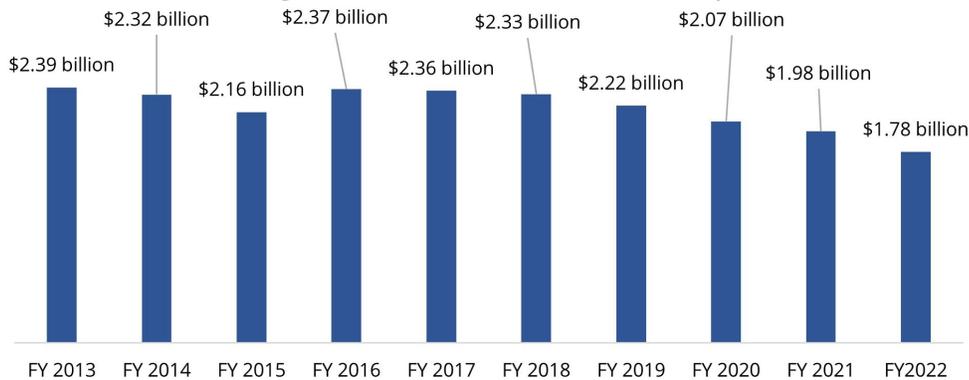
The revenue fluctuation reserve was \$1.55 billion on June 30, 2022, the highest level in state history.

Rainy Day Fund Balance



Data Sourced from the Transparent TN Interactive Budget Tool

General Obligation Bonds and Commercial Paper Debt



Data Sourced from FY 2022 ACFR p. 237

Bonded Debt: The state’s general bonded debt, which accounts for the majority of the state’s total long-term debt, decreased by \$194.1 million during the fiscal year to a total of \$1.8 billion. This change is primarily due to debt service payments made during the year exceeding new debt expenditures made in the commercial paper program.

Low Debt Burden: Tennessee has consistently maintained a relatively low debt burden by using sound, prudent, and conservative debt management practices. Such practices include funding a portion of the state’s capital program with surplus cash, cancellation of bond authorizations in lieu of issuing debt, creating, and maintaining a “rainy day fund” to offset unanticipated revenue shortfalls, and the adoption of state statutes designed to control the issuance of excessive debt. The state continues to maintain a relative low debt burden, and access to the capital markets remains strong.

For more detailed financial information visit the Department of Finance and Administration’s [website](#). You can also view the [Annual Comprehensive Financial Report](#), and all [budget](#) information.



Tennessee's Economic Outlook

Economic growth was extremely volatile over the last two and a half years because of the COVID-19 pandemic and ensuing economic recovery. In 2020, Tennessee inflation-adjusted gross domestic product (real GDP) shrunk by 2.3 percent, but then grew by an astounding 9.2 percent in 2021 as the economy reopened, the housing market showed incredible strength, and consumers spent heavily to satisfy pent-up demand. Strong economic growth continued into the first quarter of 2022 but then stalled in the second quarter as inflation eroded consumer spending and higher interest rates led to a reduction in investment spending. As a result, Tennessee real GDP grew by an annual rate 3.7 percent in the first quarter of 2022 but only 0.3 percent in the second quarter.

It is important to reiterate that real GDP has largely slowed because of extremely high inflation. In nominal terms (current dollars), Tennessee GDP rose by a robust 12.6 and 8.0 percent in the first and second quarters of 2022 respectively. However, these strong gains occurred because people were spending more money to purchase goods and services, and not because they were purchasing more goods and services. As of October, the Consumer Price Index (CPI) is up by 7.7 percent (compared to the same time last year) after peaking at 9.1 percent in June. Inflation rates have not been this high in four decades. In response to elevated inflation, the Federal Reserve has aggressively increased interest rates in hopes of reducing demand and easing price pressures. In doing so, higher interest rates have put downward pressure on the stock market and housing values. This could induce a negative wealth effect, leading to a reduction in consumption and investment spending, and potentially spur an economic recession. As a result, the current national forecast is projecting a mild economic recession, with U.S. real GDP starting to fall in the fourth quarter of 2022 and continuing to contract through the first half of 2023. Expectations are that positive GDP growth will resume in the third quarter of 2023.

By comparison, Tennessee's economic outlook is much stronger than the national outlook. Tennessee, inflation-adjusted GDP growth is expected to slow appreciably over the next two years, however, economic growth will remain positive due to less adverse economic conditions in the state (relative to the nation). In Tennessee, real GDP grew in the first quarter of 2022 and then slowed but remained positive in the second quarter, whereas the nation saw contractions in each of the first two quarters.

The state has also seen a strong rate of in-migration in recent years, which has led to an uptick in economic activity. In addition, state revenues remain healthy due to strong tax revenue collections coupled with direct state aid through the 2021 American Rescue Plan, which has put the state economy on stronger footing. As a result, Tennessee real GDP is expected to grow by 2.4 percent in 2022 and then decelerate to 0.7 percent growth in 2023.

Tennessee's labor market continues to show strength. As of October, there are nearly 108,000 more nonfarm workers in Tennessee than there were prior to the pandemic (February 2020). Furthermore, Tennessee has seen the ninth strongest rate of job growth since the initial phase of the pandemic, expanding by 3.4 percent between February 2020 and October 2022. Only Idaho, Utah, Florida, Texas, North Carolina, Georgia, Montana, and Arizona have seen stronger rates of job growth over this period. For 2022 as a whole, Tennessee nonfarm employment is projected to grow by a robust 3.9 percent. Employment growth will then slow to 1.0 percent in both 2023 and 2024, as some businesses that rapidly expanded during the pandemic slow or even reverse their rate of hiring, and higher interest rates increase the cost of borrowing and make it more difficult for existing firms to expand and new firms to raise capital.

In both the state and nation, unemployment rates have fallen rapidly following the pandemic recession. In Tennessee, the unemployment rate rose to 14.7 percent in the spring of 2020, but is down to 3.5 percent as of October 2022, while the U.S. rate currently rests at 3.7 percent. The quick recovery in unemployment rates has been driven by both people finding work and people leaving the labor force entirely (not working or actively looking for work). The unemployment rate only measures the percentage of people not working but actively looking for work and can therefore fall if fewer people are searching for a job. This is in fact occurring, as the labor force participation rate fell dramatically at the onset of the pandemic and has yet to recover. Expectations are that the state unemployment will increase to 3.8 percent in 2023 and 4.0 percent in 2024. This uptick will be driven by a slight reduction in the number of employed people as job growth slows over the next two years, coupled with an increase in the number of unemployed people as many Tennesseans who left the labor force during the pandemic start looking for work again. By comparison, the national unemployment rate is projected to rise even faster, reaching 4.9 percent in 2023 and 5.3 percent in 2024.

Prepared by The Boyd Center for Business and Economic Research at the University of Tennessee

Financial Stimulus Accountability Group

The Financial Stimulus Accountability Group (FSAG) is a bipartisan group created by the governor in 2020 to ensure proper fiscal management of stimulus funds received by the state through the CARES Act and American Rescue Plan Act (ARPA). At the state's discretion the FSAG has allocated \$3.57 billion of the \$3.75 billion it received from ARPA. Major investments are being made to sewer and water infrastructure as well as broadband infrastructure across the state, with allocations of \$1.35 billion and \$500 million respectively. Other investments are related to specific state department project proposals. The Tennessee Resiliency Plan, which contains expenditures approved by the FSAG, can be found [here](#).

TN

Department of
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