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Tennessee's economy and budget are still stuck in the ditch.

At the close of this year's legislative session (on June 10), Governor Bredesen summarized the budget that was adopted. "The budget passed by the General Assembly will take longer to come back into balance than I had hoped and uses more of our reserves than my original plan. That means the next Legislature will have to manage spending even more closely and look for opportunities to build savings back. However, *with revenue growth that's predicted (emphasis added)*, I believe the state's finances will remain in good shape again next year."

That statement is already out of date because the predicted revenue growth is not occurring. The recently released report on Tennessee's revenue collections for June shows a continuing trend for revenues to fall short of budget projections. Sales tax collections were \$16.8 million short of projections for June and \$224.7 million short for the fiscal year to date. Total revenue collections were \$6.2 million short of projections for June and \$225.5 million short for the fiscal year to date. While the sales tax revenue is \$3.8 million more than June 2009, it is still \$50 million less than June 2008. Collections are even falling short of projections that were revised downward in March 2010.

Tennessee's May unemployment rate of 10.4% exceeds the national rate of 9.7%. Meanwhile, politicians across the state are crowing about passing a balanced budget with no new revenue. Governor Bredesen stated that they made some "painful cuts" this year and dipped into reserves for \$245 million dollars of revenue. He proposed loophole-closing measures that would have raised \$120 million, but the legislature rejected those proposals.

Glib statements that Tennessee's revenue will recover when the economy recovers are not based in reality. Because of our excessive reliance on sales taxes on a diminishing portion of the economy, revenue will not keep up with economic growth. Even as the national economy recovers, the state's finances will continue to be under a relentless budget squeeze.

The only sustainable option is to swap out part of the sales tax revenue for at least a corresponding amount of income tax revenue, paid primarily by upper income people. Such a swap would give a nice boost to the economy by providing a tax break to 70-80 percent of Tennessee families. These lower-, middle- and upper middle-income families will spend tax savings on necessities, adding to state tax revenues and creating jobs, while the upper income people reduce the amount they add to their wealth each year. Anne Mayhew of Tennesseans for Fair Taxation said, "Tax cuts to businesses and wealthy individuals do not create jobs in the here and now, which is when we need them. More money in the hands of 70-80 percent of consumers will increase demand for goods and services and lead businesses to hire more employees to satisfy the demand."

Election campaigns are in full swing. Voters must require all candidates running for governor and the state legislature who claim they will balance the budget without additional revenue to specify what they would cut and how much or acknowledge the reality and state how they would improve revenue.