

The Real Budget Deficit



A call to invest in Tennessee, its communities, and its people.

A report from Tennesseans for Fair Taxation on the real state of Tennessee, including analysis from the Institute on Taxation and Economic Policy .
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Executive Summary

Tennessee is a beautiful state with vast natural resources, a rich history, and a volunteer spirit. As Tennesseans, we share a common vision of a state where children have the tools they need to succeed, streets are safe, neighborhoods are clean, and the economy is strong.

Unfortunately, our state is being short-changed by policy makers who have failed to invest in our state, our communities, and our people. In failing to make needed investments, they are jeopardizing that vision.

Much was said earlier this year about Tennessee having a budget surplus, on paper at least, of \$300 million. This number however is meaningless. That's because we're only measuring revenue over previous years and the very low expectations set by our elected officials in the budgeting process.

If we based our budget on a more meaningful number, like the average of our eight neighboring states in these same public investments as a percent of income, we would instead be facing a budget shortfall of \$3.4 billion!

Education represents the largest part of this shortfall at \$2.1 billion. Nearly every other area of government also lags behind the region, including environment and agriculture, social services, public safety, and transportation.

In failing to make the needed investments, we limit our potential as a state. Despite the wishful thinking of those elected officials who peddle their something-for-nothing promises, funding levels are in fact tied to performance as evidence in this report makes clear.

On average, students in states that invest more heavily in education are more proficient readers, are more likely to graduate high school, score higher on standardized tests, and are more likely to go to college and finish.

Instead of being the leader we should be, Tennessee trails the nation, and the region, in these key public investments. The consequences are evident. We're 45th in high school graduation rates, 4th in violent crimes per capita, and first in bankruptcies.

When we hear these dismal rankings though, it is important not to fault our government or its employees. Our teachers, police, fire fighters, housing inspectors, and other public employees work hard to do the jobs they were hired to do with limited resources.

The fault for these poor rankings lies with those elected officials who have failed to make the needed investments. As citizens of this great state, we have the capacity to demand change and chart a new course.



Introduction: Reviving Citizenship

At the core of our values as Tennesseans is a strong sense of place and a belief in community. We are proud of our heritage and the deep, rich history we share as Tennesseans.

As citizens of this great state, we want the best, not just for our children, but for all children in our communities. We want streets that are safe for us and everyone else. We want to see more Tennesseans succeed economically with an expanding and strong middle class. In short, we want our state to reflect the vision we hold in our hearts and minds as proud Tennesseans.

When we hear that our children are not doing as well as they should, or that crimes are being committed in our neighborhoods, that vision is diminished. This report explores the challenges that we face in making the reality of Tennessee match the vision we share as Tennesseans.

At the core of this report is the role of our elected officials, who are the stewards of the public structures that have been built through generations of public investments. The strength of our schools, the safety of our streets, and even the purity of the air we breathe is in their hands.

Some of these elected officials though have wooed voters with false

claims about how they can improve our schools, clean up our streets, and make our neighborhoods safer without ever addressing the need for public investments. Their fanciful promises would lead one to believe that solely through good management and accountability, we can magically turn an aging Ford Pinto into a new Cadillac. Fortunately, not all elected officials think that way.

It is up to us as citizens to come together to demand an end to these false promises. It is up to us to call for a renewed commitment to making Tennessee the state we all want it to be.

As Tennesseans, we are all bound together through a shared destiny. When our schools are successful, we all succeed as prosperity broadens and the economic health of our communities is strengthened. When our streets are safer, we all benefit as neighbors start coming out of their doors and getting to know one another. When our rivers are cleaner, we all benefit as children can splash about and fishermen can enjoy the cool morning air and a good catch.

While this report documents the realities here and now, it is up to us to come together as citizens of this great state and insist that our elected officials help make Tennessee match the vision we hold in our hearts and minds.

Community is about standing together. We support our education system because we believe that every child deserves a quality education. That is a core value that is independent of whether we as individuals have children in school or not.

That's what community is about. That's what citizenship is about.



The \$3.4 Billion Deficit: Limiting Our Future

Tennessee public sector investments trail the surrounding-state region by \$3.4 billion. That's a shortfall of a 16% relative to current state and local investments.

As responsible citizens, we must come together and insist that our elected officials begin the long-overdue process of investing in Tennessee so our state can begin to reflect the values we all share.

By providing a detailed comparison of Tennessee to our eight border states in funding for key public services as percent of income, including North Carolina, Virginia, Kentucky, Missouri, Arkansas, Mississippi, Alabama, and Georgia, this report documents how far behind Tennessee really is. More importantly, it helps to show us what it will take for Tennessee to catch up.

Providing Context to the Discussion

The problem with the current discussion of surpluses and deficits in Tennessee is the lack of context. That's because we're only measuring revenue over previous years and the very low expectations set by our policy makers in the budgeting process.

Applauding legislators and the governor for achieving a \$300 million surplus is like giving a gold star to the F student who makes a F+ while the rest of the class is making C's and B's.

If, instead of measuring revenue raised against the very low expectations that our governor and state legislature have for Tennessee, we measured revenue against what it would take to fund state and local government at the border-state average, Tennessee would be facing a combined state and local deficit of \$3.4 billion!

This deficit would likely be even bigger in 2006 dollars. That's because the comparative analysis in this report uses 2004 Census data from before the recent TennCare cuts and the across-the-board budget cuts in 04-05.

This regional analysis also helps us put current efforts into a more meaningful context. When a public official says he helped put \$100 million into education, it sounds like a lot of money to most of us. However, once we know that education investments in Tennessee lag \$2.1 billion behind the region, we come to understand that the \$100 million is only a beginning.

The Importance of Funding

While adequate funding by itself is not the entire solution, it is a necessary component, along with the right priorities and good planning.

We don't defend our nation with paper airplanes and neither can we expect our children to get a quality education with pipe dreams and pipe cleaners.

Nonetheless, there are those who continue to argue that we don't need money, we just need more accountability and good management. Those who make such fanciful and wishful arguments have simply forgotten the age-old lesson: You get what you pay for.



Education: Tools for the 21st Century

The lack of support for education makes up the bulk of the \$3.4 billion shortfall. Tennessee's level of public investments in libraries, pre-K, K-12, and public colleges and universities lags a staggering \$2.1 billion behind the regional average in funding for education.

With diminishing state support for higher education, our universities have been forced to raise tuition year after year. Due in part to these high costs, fewer young people go to college in Tennessee than in our border states. Enrollment rates in Tennessee trail 11% behind the neighboring states and 24% behind the national as a whole.

The picture doesn't look much better for K-12. After years of chronic under-funding, our schools are struggling to keep up. Graduation rates trail behind both the region. Eighth graders in Tennessee are 17% less likely to be proficient in math than those in our neighboring states, and 33% less likely than children nationally. They're also less proficient in reading. Even the new pre-K program is too little, too late.

Funding and Performance

Increasing the educational attainment of our young people is a multi-faceted challenge. Active and engaged parents, accountable schools, and adequate funding are all necessary components.

Despite the wishful thinking of those who try to deny the obvious importance of money, hard evidence shows a clear link between the level of education funding and performance. When comparing the 10 states nationally that invest most heavily in education per capita to the 10 states that invest least, the link between funding level and performance becomes clear.

Eighth graders in the states that invest most are, on average, 31% more likely to be proficient in reading and 36% more likely to be proficient in math than eighth graders in the states that invest least. As well, residents of those top 10 states are 21% more likely to have a bachelor's degree.

The states that invest more also have higher graduation rates, lower dropout rates, higher literacy rates, and score better on standardized tests. Clearly, there is a solid link between education funding and performance.

Investing in our Future

It's up to us to come together and call upon elected officials to invest in education from pre-K to higher ed. With adequate funding, in combination with engaged parents and accountable schools, we can give our children and young adults the tools they need to compete in a 21st Century economy.

On average, states that invest most in education show clear performance gains over states that invest least. Students in the states that invest most score better on standardized tests, are more likely to be proficient at math and reading, and are more likely to get a high school diploma. They are also more likely to go to college and finish.

We all want our children and young adults to have the tools they need to succeed in a 21st Century economy. It's up to us to come together and call upon our elected officials to start investing in education at all levels, from pre-K to higher education.



Tennessee has been blessed with wonderful natural resources, and our elected officials are charged with the stewardship of those resources. Yet when we hear that pollution levels in the Great Smoky Mountains National Park often reduce visibility in the park from 100 miles to 25, we know something is seriously wrong.

While there are numerous laws on the books designed to protect our air, water, and other natural resources, there are simply not enough staff to enforce those laws.

Environment and Ag: Ensuring Quality-of-Life

Environment and agriculture expenditures by state and local government cover a wide range of investments, including fish and wildlife management, air and water quality, solid waste, sanitation and sewage, parks, greenways, and agriculture.

Tennessee trails \$300 million behind our neighboring states in funding for these same public structures. The results of this under-investment can be felt at many levels, putting Tennessee's rich natural resources and the health of our communities at risk.

Toxins in Tennessee

When one thinks Tennessee, toxic chemicals are not what comes to mind, yet total toxic chemicals released into the environment per square mile in Tennessee is more than double that of the neighboring states (3,600 vs. 1,760 lbs. per square mile). This is driven largely by air and land discharges of toxic chemicals, which are 2 and 2.5 times respectively what the neighboring states discharge into the environment per square mile.

Even more troubling, Tennessee's "Cancer Risk Score," or the measure of Benzene-equivalent releases in lbs. per square mile, is 59% higher than our eight neighboring states.

Enforcing Existing Laws

One of the most common complaints among community leaders is that the state lacks sufficient staff to enforce the laws that are already on the books.

These laws are there to protect our health and well being as people. Without the needed staff to enforce them, the integrity of the laws themselves are weakened.

A Vision for Tomorrow

With a renewed commitment by our elected officials to invest in Tennessee, we can rise to the challenge as a state and turn the corner.

We can hire enough officers and inspectors to ensure that existing laws to protect our air and water are enforced. We can expand our state park system, along with the greenway networks that are slowly spreading across our urban centers. We can help farmers establish buffer zones to keep animal waste and fertilizers from running off into our waterways.

We can, in short, protect the natural resources that Tennessee is blessed with, and the health of our communities and our people in the process.



Social Services: Protecting the Well-Being of Children, Seniors, and the Vulnerable

The social services category of public investments includes children's services, early intervention programs, foster care, support for people with physical disabilities and mental illnesses, housing assistance, health and hospitals, unemployment insurance administration, veterans affairs, and other public welfare expenditures.

While Tennessee was slightly behind (\$30 million) the regional average in funding for social services, the 2004 Census data used in this analysis predates the massive TennCare cuts that left so many uninsured and sick Tennesseans struggling. Those TennCare cuts reduced state expenditures by \$550 million and cost the state \$1.2 billion in federal matching dollars.

If a comparison were possible using more recent data that factored in impact of the health care cuts, Tennessee would likely lag even further behind the regional average in support for social services.

Gross Inequalities in Tennessee

If federal dollars were included in this analysis, Tennessee would actually be ahead of the region in funding for social services, but for all the wrong reasons.

That's because much of the federal social service funding is driven by need, including Tennessee's high poverty rates and gross inequalities. In Tennessee, 14.9% of people live below the poverty line, compared to 13% in the eight neighboring states and 12.4% for the nation as a whole.

According to a recent report from the Economic Policy Institute, Tennessee has one of the widest income disparities in the nation and in the region. Among Tennessee and its neighboring states, Tennessee leads the region in income inequality between top and bottom income earners. Tennessee also has the fastest growth of top-to-bottom inequality in the region over the last 10 years as well as the last 20 years.

With such pervasive poverty and gross inequalities, it's not surprising that so much federal poverty assistance funding finds its way to Tennessee.

Rebuilding Communities

Building a strong middle-class is a key step in building strong communities. With adequate public investments and good planning, we can make Tennessee into a state where prosperity is broadly shared and the American Dream is a reality for more Tennesseans.

As a community, we all have a role in ensuring the health and well being of our children. Our state, through early intervention programs, foster care, and other children's services, plays a key role in carrying out that vision.



Public Safety: Forging Strong Communities

We support our fire departments, not because we expect our house to catch fire, but because someone's house somewhere will, and we want them to be safe. That's what community and citizenship is about.

Public safety expenditures by state and local government include police, highway patrol, fire protection, corrections, as well as the often overlooked safety and health inspections to ensure restaurants are clean and sanitary, wiring in our homes is safe, and conditions in child care centers are safe.

Like every other area of state and local government in Tennessee, funding lags significantly behind the regional average. In this case, we are \$150 million behind the region.

Tennessee Leads the Region in Crime

Each year, there are 5 crimes for every 100 residents in Tennessee compared to 4 for the eight neighboring states. There are 7 violent crimes for every 1,000 residents, a staggering 72% above the regional average of 4 violent crimes for every 1,000 residents. Robberies, property crimes, and motor vehicle thefts in Tennessee are also 17 to 27% higher than in our neighboring states.

Solving the Problem

There is much debate over the solutions to such widespread crime. There are those who argue that we need to put more police on the streets, get tough on crime, lock criminals away and throw away the keys.

Others argue that we need to address the root causes of the problem. They argue for added investments in mental health programs and treatment for drug and alcohol addiction. They also call for investments in education and other strategies to strengthen the middle-class and reduce inequalities.

A third group argues that we need to do both, put more police on the streets to protect us for the here and now, but at the same time, work to address the root causes with investments in other areas.

While this is an interesting and healthy debate, it is largely irrelevant. That's because the most likely scenario is that we will simply do nothing, because all three strategies involve funding that is just not there.

This is one more example of the failed strategies of those who claim some wishful combination of management and community involvement can solve our problems without having to address the underlying funding issues.

If we are to move ahead, we must come together as citizens and demand an end to such false promises, and instead, call for a renewed commitment to invest in Tennessee and its communities. When we come together as a community, we can make a difference.



Transportation: Helping Broaden Prosperity

Tennessee's level of investments in transportation lags \$650 million behind what our neighbors are investing.

Transportation expenditures include a wide variety of public investments. Among those are public transit systems; road and bridge maintenance; other road infrastructure like traffic signals, signs, streetlights, and sidewalks; public parking infrastructure from public garages to parking meters; as well as rail and air transportation.

In fact, a significant portion of the total shortfall is related to air transportation. Regional airports are generally public projects with the privately-owned airlines simply leasing terminals.

Border states like Georgia, Virginia, and Missouri invest significantly more in their regional airport infrastructure, attracting low-cost air carriers, increasing business in their communities, and improving overall efficiency.

Stimulating Economic Growth

Numerous studies, summarized in "Rethinking Growth Strategies" from the Economic Policy Institute, show that investing in transportation infrastructure, along with education, is one of the more effective actions that state and local governments can take to stimulate economic growth.

Business surveys show that education of workforce, access to resources, and transportation systems are some of the most cited reasons in deciding where to locate new businesses.

Tennessee communities would be well-served by making sensible and well-planned investments in our transportation networks.

Investing in Tennessee

In addition to stimulating economic growth, investments in transportation, if done wisely, can improve the quality-of-life in our communities.

Sidewalks make for pedestrian-friendly communities. Streetlights make for safer neighborhoods. Investments in public parking can help revitalize downtown areas. Expanding public transit options can lessen traffic congestion and improve air quality.

There are many options available to us, but only after we put aside the wishful, something-for-nothing strategies that have been sold to us by misguided policy makers.

With a renewed sense of citizenship and community, we can call upon our elected officials to invest in our communities and make the reality of Tennessee begin to look like the vision of Tennessee we hold in our minds.

Investing in transportation means far more than roads. It also includes regional airports, rail systems, sidewalks in our neighborhoods, public parking garages, street lights, and public transit.



As citizens, we support our government not because we get a certain set of services in return, though that is always good, but because our government is a vehicle for achieving a greater good and working toward our common goals.

That's what being part of a community is about. That's what citizenship is about. One day it will be our turn and, when it is, we'll want our community there for us.

Courts and Gen. Government: Working Together

Courts and general government investments include our courts and judicial system, construction and maintenance of the general public buildings that dot our landscape, staff and expenditures related to revenue collections, and the work of governing itself from our city councils to the state legislature.

In this category, Tennessee lags \$200 million behind the region, a reflection in part at least of lower investment levels in other areas.

At the same time, there are areas where this lack of investments in the general government sector means long waits in our court system, of months and even years, and underpaid state employees suffering from low morale. In fact, full-time state and local employees in Tennessee are paid, on average, \$1,000 less than state and local employees in our eight neighboring states.

Other Public Expenditures

In addition to the categories of public investments already discussed, there are a few other areas that do not neatly fit into any one category. In addition to interest on debts, a host of non-classi-

fied expenses result from the method of reporting data to the Census Bureau. Generally speaking, Tennessee is \$100 million above the regional average in these non-classified expenditures.

With real investments in our state, our communities, and our people, we can make the reality of Tennessee more closely resemble our vision of Tennessee as a community where children have the tools they need to succeed, streets and neighborhoods are safe, our air and water are clean, and our economy is strong and growing.



Get Involved

Charting New Directions

We as Tennesseans are strong and our state has been blessed with a wealth of natural resources, hope, and promise. We can make Tennessee the leader that it can and should be among our neighbors in the South, but it is up to us to chart a new course.

To do this, we must first move beyond the false promises and failed strategies of those whose creative attempts to avoid making the needed investments in Tennessee have failed us time and again.

It's time for a more realistic strategy that actually can make Tennessee the state we envision. The evidence is clear. States that invest in schools, universities, transportation networks, and their people outperform states that don't.

We should begin a dialogue about what it will really take for Tennessee to live up to its promise. It's time for a hard talk and a real public dialogue about what it will take to close the performance gap and bring our public structures up to the level that we expect as Tennesseans.

It's time to chart a new course and put Tennessee back in the leadership role it should be in among our neighboring states in the South.

Take Action

While this report makes no specific recommendation on how to close the investment gap that separates us from our neighbors, it does call upon us to start a meaningful dialogue on how we are going to do it.

Explore some of the options that Tennessee can take to start closing the funding gap by visiting TFT's web site at www.yourtax.org where a host of on-line facts are available. You can also sign up there for regular email updates, newsletters, and more on the site.

Help start the discussion in your community. Write a letter to the editor of your local papers. Schedule one of TFT's interactive and participatory workshops for your church group, neighborhood association, or civic club.

Talk to policy makers at all levels – the governor, state legislators, mayors, city council members, county commissioners – about the need to invest in our communities and our people, and don't let them get away with more something-for-nothing promises. We need informed and responsible policy makers who are willing to make the tough choices and deliver real results.

Finally, help spread the word. Give this report to family members, friends, neighbors, and co-workers. Thanks!



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Methodology and Data Sources

Tennesseans for Fair Taxation collaborated with the Institute on Taxation and Economic Policy, who provided technical assistance for the analysis, in the creation of this report. Thanks to all of those whose input and suggestions contributed to the production of this report.

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Comparative Analysis

The comparative state and local expenditure analysis in this report was conducted by the Institute on Taxation and Economic Policy (ITEP). ITEP is a non-profit tax policy research group based in Washington, DC.

The report compares Tennessee to our eight border states, including North Carolina, Virginia, Kentucky, Missouri, Arkansas, Mississippi, Alabama, and Georgia, in terms of each state's level of investments in key program areas as a percent of personal income.

These states all share with Tennessee a common history as well as similar geographies, climates, and cultures. Even population densities are similar, with Tennessee falling near the middle of the nine-state region in total population and only slightly above the

region in overall population density. All of these similarities help us in making an apples to apples comparison.

The analysis uses 2004 direct government expenditure data from the US Census Bureau for all state and local governments. Expenditures for water transportation were excluded from the analysis, as Tennessee, unlike five of our border states, does not have a coastline. Federal pass-through funds were also excluded from the data to get an accurate measurement of each state's own effort at funding key state and local program areas.

Tennessee's level of expenditures was compared to a weighted average of the border states to determine what our state and local expenditures would be if we funded programs at the same level as our neighbors.

Table: TN State and Local Expenditures in 2004 vs. What it Would be at Regional Average

The table below includes what Tennessee's actual state and local direct governmental expenditures (less federal pass-through dollars) were in 2004 vs. what they would have been had Tennessee funded services at the same percentage of personal income (PI) as our border states. All numbers are rounded conservatively downward to the nearest \$50M in the narrative.

Category of Investments	TN Actual DGE 2004		If TN at Border-State Avg		Difference
	% of PI	Dollars/1,000s	% of PI	Dollars/1,000s	
Education & Libraries	5.1%	\$8,647,155	6.3%	\$10,788,350	\$(2,141,195)
Environment & Ag	0.8%	\$1,308,597	0.9%	\$1,616,271	\$(307,674)
Social Services	3.0%	\$5,141,911	3.0%	\$5,173,478	\$(31,567)
Transportation	0.7%	\$1,270,473	1.2%	\$1,963,885	\$(693,412)
Public Safety	1.5%	\$2,487,694	1.6%	\$2,660,160	\$(172,466)
Governmental Admin.	0.8%	\$1,320,440	0.9%	\$1,539,654	\$(219,214)
Other Expenditures	1.1%	\$1,885,024	1.0%	\$1,750,869	\$134,155
Total	12.9%	\$22,061,294	14.9%	\$25,492,666	\$(3,431,372)

Funding and Performance Analysis:

The educational performance to funding analysis compares a weighted average of the top 10 states in expenditures for education per capita to the bottom 10 states. All data for the comparative analysis came from "State Rankings 2006: A Statistical View of the 50 United States," from Morgan Quinto Press.

Regional Comparisons

All the regional comparisons relative to crime, educational attainment, poverty rates, and governmental employee salaries is based on

a weighted average of the border states using data from "State Rankings 2006: A Statistical View of the 50 United States," from Morgan Quinto Press.

Environmental Comparisons

Toxic chemical release comparisons is based on data available from the EPA's Toxic Release Inventory, as compiled by the Green Media Toolshed. All comparisons are made on a per square mile basis. Other environmental statistics are from the Tennessee Environmental Council's web site.

Other Data Sources and Publications Referenced in this Report

- "State Rankings 2006: A Statistical View of the 50 United States," Morgan Quinto Press
- "CQ's State Fact Finder 2006: Rankings Across America," Congressional Quarterly
- "Pulling Apart: A State-by-state Analysis of Income Inequality," Economic Policy Institute
- "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," by Dr. Robert Lynch of the Economic Policy Institute

