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EDITOR'S NOTE

When Governor Phil Bredesen presented his state budget proposal on February 1 to cover fiscal year 2010-2011 (beginning July 1), it was quite revealing just how significantly the recession has impacted Tennessee's finances. It was an approximately $28 billion budget compared to last year's $30 billion.

The most painful cuts in Bredesen's budget included the elimination of 1,300 state jobs and a cap for inpatient hospital care as well as cuts for other medical services under TennCare coverage. The job cuts would save the state $260.7 million and the medical cuts $174 million. In addition, the cost of a standard driver's license would more than double — from $19.50 to $46 — raising $21.9 million in additional revenue.

Finally, Bredesen would tap the state's reserves, commonly referred to as the Rainy Day Fund, to yield about $200 million more.

These reductions became necessary because of dwindling sales-tax collections — largely resulting from the recession. Moreover, it is expected that Tennessee will lose $1.7 billion in federal funding as the stimulus program comes to a close.

However, Bredesen proposed full funding for the basic education program for K-12 education. To accomplish full funding as well as to avoid deeper layoffs and cuts to the departments of health, mental health, and children's services, Bredesen resorted to invading the state's reserve funds for the second year in a row.

Unlike K-12 education, Tennessee's colleges and universities will see significant cuts for the next budgetary year in addition to the more than $270 million that has been cut over the past three years. Senator Lamar Alexander, former president of the University of Tennessee system and opponent of the recently passed healthcare reform law, predicts that the law will require the state to expand TennCare by nearly $300 million, beginning in 2014. Alexander predicts that the huge increase in TennCare spending will further diminish funding for public higher education in Tennessee, with the distinct possibility of forcing tax increases or sending student tuition "through the roof."

Tennessee's unemployment rate for February was 10.7 percent, or about a percentage point above the national rate. However, Bill Fox, director of the University of Tennessee Center for Business and Economic Research, recently estimated that the state would see positive revenue growth (though not robust) for the first time in three years. Fox's estimate comes as Tennessee has just experienced 21 consecutive months of negative growth in sales tax collections since January 2008.

Still another indicator of Tennessee's contracting economy is the fact that personal incomes of Tennesseans dropped in 2009 for the first time in 60 years because of lost jobs, salary cuts, and furloughs. Responding to this drop in personal income, Fox said: "We've said all along that this is the worst recession in modern history, and the data keeps confirming that."*
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—Horace Johns, executive editor, professor of business law, MTSU