

A REPORT TO THE PEOPLE OF TENNESSEE

Fiscal Year 2023
July 1, 2022—June 30, 2023



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	7,126,489	\$60,796	3.2% (June 2023)	2022-2023	967,469	211,495
Change from year prior	+75,150	+\$2,500	-0.1%	Change from 2021-2022	+113	-149

Continued Success for Tennessee

In 2023, Tennessee built upon the record-breaking growth of previous years, maintaining its new position as a leader in economic development in the Southeast and across the country. Tennessee saw over 13,000 new job commitments related to over 100 new economic development projects, totaling nearly \$4 billion in investment. In a demonstration of the state's focus on driving rural prosperity, 50% of projects and 48.9% of committed jobs were located in rural counties, helping spur a drop in the number of distressed counties to eight, the lowest in state history.

In addition to a robust economy, Tennessee remains dedicated to fiscal responsibility, continuing to boast one of the lowest state and local tax burdens per capita. Tennessee's strong commitment to prudent budgetary practice continues to attract companies, investors, and projects, ensuring the state's strong position for the future.



#5 State of the Year for Business Climate



#3 Top State for Business

To learn more about Governor Lee's Priorities visit : www.tn.gov | Social Media



Major Initiatives

The 2023 session of the 113th General Assembly closed with the successful passage of Tennessee Governor Bill Lee's full 'Tennessee: Leading the Nation' themed legislative agenda. The roster of budget and legislative priorities makes significant investments in tax relief, K-12 education, Tennessee's skilled workforce, and conservation while maintaining the state's commitment to responsible financial management.

Both the Tennessee Works Tax Act and the Transportation Modernization Act were top priorities.

Tennessee remains one of the

lowest-taxed states in the nation and the bold plan (more than \$400 million in tax cuts) set forth through the Tennessee Works Tax Act will further strengthen economic competitiveness, promote entrepreneurship, and provide meaningful relief to families across our state.

As Tennessee continues to lead the nation with record growth, the Transportation Modernization Act provides the state with innovative tools to address traffic congestion, especially in urban areas, freeing up funding to invest in rural and suburban communities, all without raising the gas tax or taking on debt.

Transportation Modernization Act Highlights:

- \$3 billion investment in the new Transportation Modernization Fund for strategic project funding across the state.
- Authority to create new Choice Lanes in urban areas to relieve congestion without removing current lanes or incurring debt.
- Expanded authority to use innovative contracting methods to deliver projects faster.
- Registration fees for electric vehicles and hybrids to create parity with combustion vehicles.

Major Initiatives By Priority



The state launched the Tennessee Strong Families Grant to improve access to maternal healthcare.



The FY24 budget included the largest teacher pay raise in state history, putting Tennessee on track to become a top-10 state for teacher pay in the nation.



The number of distressed rural counties dropped to eight, the fewest in Tennessee history.



The FY24 budget included a \$50 million expansion of the Violent Crime Intervention Fund (VCIF), which funds grants to local law enforcement agencies.

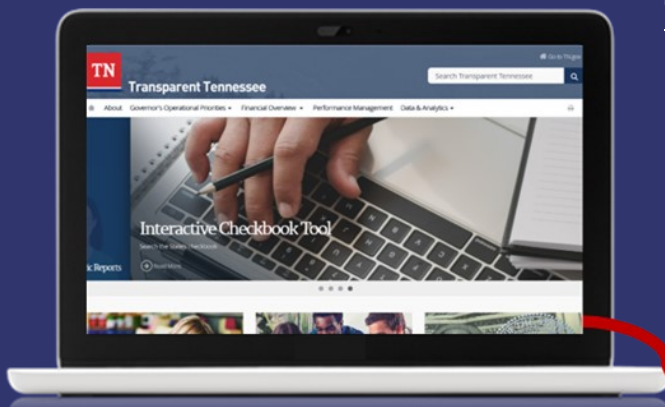


In 2023, Tennessee was named the Leading State in Evaluation Leadership and Investment in Capacity to Learn What Works by *Results for America*.

For additional resources visit the:

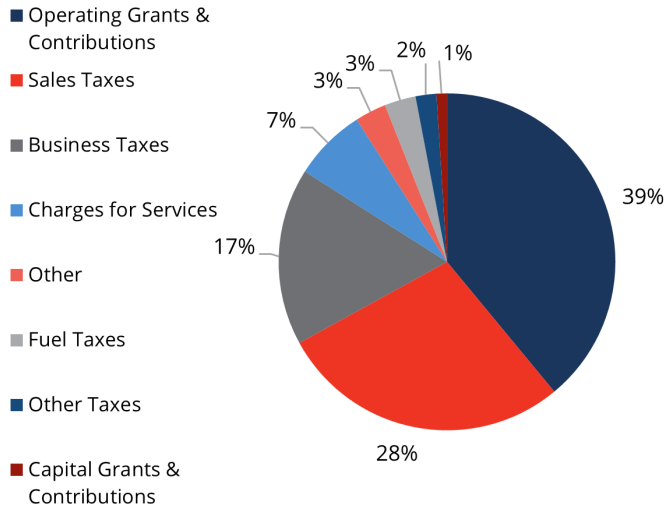
Transparent Tennessee Website

- Performance metrics for each cabinet-level department
- Searchable checkbook tool
- State employee salary search tool
- Interactive budget tool
- Links and guidance for open records requests
- Public information on grants and economic development subsidies and incentives



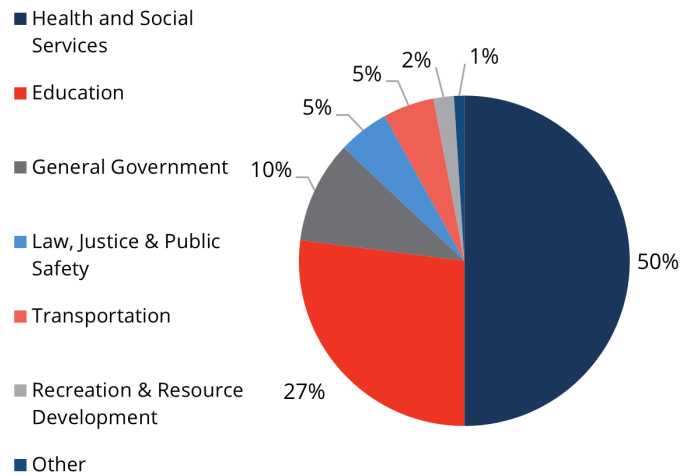
www.TN.gov/transparentTN.html

Revenues by Source-Governmental Activities



Data sourced from [FY 2023 ACFR p. 27](#)

Expenses by Function-Governmental Activities



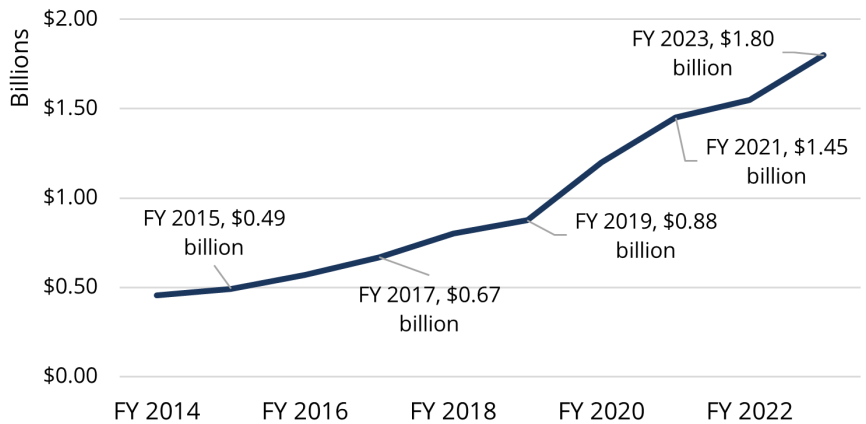
Data sourced from [FY 2023 ACFR p. 26](#)

“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 \$1.8 billion on June 30, 2023, the highest level in state history.

Data Sourced from the [Transparent TN Interactive Budget Tool](#)

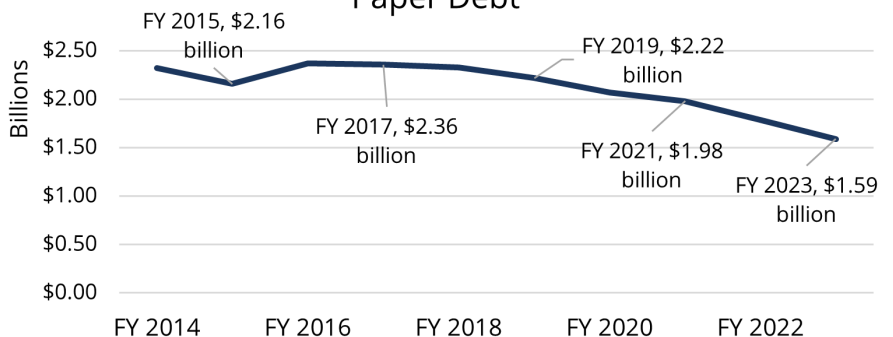
Rainy Day Fund Balance



Bonded Debt: The state’s total general obligation bonds and commercial paper debt decreased by \$194.6 million during the fiscal year to a total of \$1.59 billion. This change is primarily due to debt service payments made during the year exceeding new debt expenditures made in the commercial paper program.

Data Sourced from [FY 2023 ACFR p. 259](#)

General Obligation Bonds and Commercial Paper Debt



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 relatively 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

The Tennessee economy has seen incredibly strong growth over the last two and a half years following the COVID-19 pandemic. Tennessee inflation-adjusted gross domestic product (real GDP) expanded by a remarkable 9.2 percent in 2021, and then grew by another 4.8 percent in 2022. However, the economic recovery appears to be losing steam, as consumer spending and job growth have both slowed in late 2023. As key examples, through the first three months of the fiscal year (August 2023 through October 2023), Tennessee sales tax collections have only grown by 1.5 percent. Part of this slowdown is driven by the three-month sales tax holiday on food, but sales tax revenues were slowing even before the holiday started in August, and this still represents a massive slowdown compared to years prior. During the same time in 2022, sales tax collections were up by 10.7 percent, and sales tax collections grew by an even more astounding 20.7 percent two years prior, from August 2021 through October 2021. Similarly, job growth in Tennessee has started to taper. In 2022, the state added nearly 11,000 workers to payrolls per month. However, through the first 10 months of 2023, Tennessee has added roughly 3,000 workers per month, which is slightly slower than the job gains seen prior to the pandemic.

As the economic recovery loses steam, Tennessee real GDP growth is projected to decelerate to a still strong rate of 3.3 percent in 2023 and a more historically consistent 1.8 percent in 2024, as consumer spending normalizes and the recovery continues to wind down.

Importantly, real GDP growth is projected to decelerate, but remain positive for both Tennessee

and the U.S., however, economic growth in Tennessee will remain above the nation throughout the forecast horizon. The more positive Tennessee outlook is largely due to projected population growth, which will help to buoy consumer spending and economic activity going forward.

Similarly, nonfarm employment growth is projected to moderate in the near term. In 2022, Tennessee employment grew by 4.6 percent and the state added 143.2 thousand workers to payrolls. By comparison, state employment is projected to grow by 2.3 percent in 2023, which would match the national labor market forecast. Then in 2024, state employment growth is projected to slow to 1.0 percent, but will outpace national employment growth of 0.7 percent.

The state's unemployment rate, which currently rests at an all-time low of 3.1 percent as of the third quarter of 2023, is projected to slowly inch upwards as job growth slows and the number of unemployed people increases. The latter will occur for two reasons. First, as economic growth slows (but remains positive) the number of job openings will retreat towards more historically normal levels, and it will take longer for some job seekers to find work, leading to an increase in unemployment duration. Second, many of those who left the labor force during the pandemic have already re-entered the workforce, this trend will continue and more people will start looking for work again. As the unemployment rate increases, labor force participation will briefly tick upwards as well. For the 2023 year as a whole, labor force participation is projected to average 59.7 percent, but will then reach 60.0 percent in 2024 and 2025.

Prepared in 2023 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 obligated 100% 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](#).

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Department of
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