

HOW BIG IS TENNESSEE'S REVENUE DROP GOING TO BE? Early Projections of Coronavirus' Effect on State Tax Collections

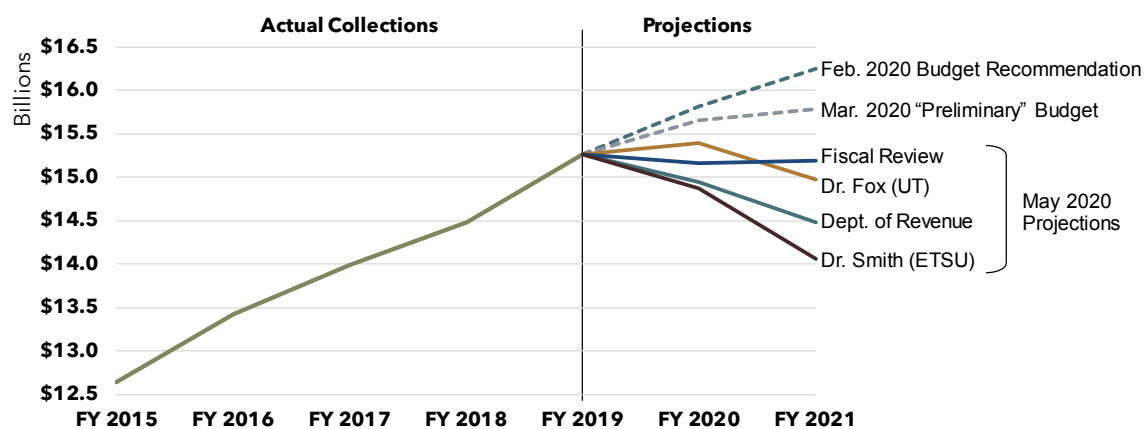
This week, we got a first glimpse of what it may take for state lawmakers to balance Tennessee's budget when they meet in June. On Wednesday, four economists gave state officials their best estimates of how the coronavirus pandemic may affect tax revenues in FYs 2020 and 2021.

All four economists agreed Tennessee should brace for falling or stagnant revenues, but the pictures they painted look quite different (Figure 1). Compared to [the budget passed in March](#), the most optimistic estimates project shortfalls of about \$260 million for the year ending June 30th (FY '20) and \$580 million for the year that starts July 1st (FY '21) (**Figure 2**). Meanwhile, the most pessimistic estimates anticipate a \$780 million shortfall in FY '20 and \$1.7 billion in FY '21. (1)

Policymakers will use these estimates to revise the preliminary budget they approved in March. In the coming weeks, expect Gov. Lee and his staff to ask the General Assembly for specific changes and more flexibility to manage the budget and keep it balanced over the next 13 months. (2)

Figure 1. After Years of Growth, Economists Expect Tennessee's Tax Revenues to Stagnate or Fall...But by How Much?

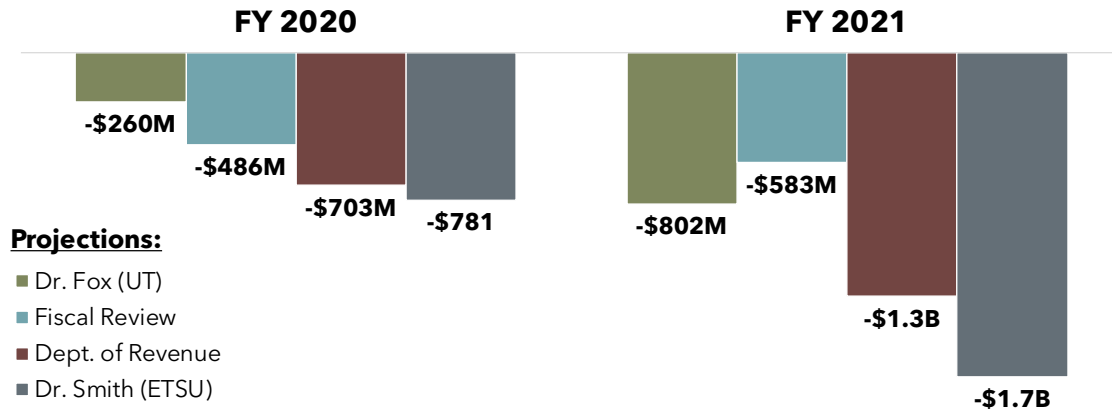
Tennessee Department of Revenue Actual Tax Collections and Projections (FY 2015-FY 2021)



Source: Analysis of information presented at the May 27, 2020 meeting of the Tennessee State Funding Board by economists from the General Assembly's Fiscal Review Committee, the Tennessee Department of Revenue, the University of Tennessee, and East Tennessee State University (1)

Figure 2. Projections for Tennessee's Budget Shortfall Range from \$1 Billion to \$2.5 Billion over Two Years

Tennessee Department of Revenue Tax Collections – Projections vs. "Preliminary" Budget Passed in March 2020



Source: Analysis of information presented at the May 27, 2020 meeting of the Tennessee State Funding Board by economists from the General Assembly's Fiscal Review Committee, the Tennessee Department of Revenue, the University of Tennessee, and East Tennessee State University (1)

How to Prep for the June Legislative Session

Recommended reading as the legislature reconvenes to tackle the budget:

- [Summary of the FY 2021 Preliminary Budget](#) provides a rundown of where the budget stood when the General Assembly recessed in March.
- [What Will the Coronavirus Recession Mean for Tennessee's Budget?](#) explains how lawmakers balanced the budget during the Great Recession and where the tools they used then stand today.
- [State Budget Surpluses, Deficits, and Rainy Day Funds](#) summarizes how the state projects its revenues and what happens when they miss the mark.
- [Tennessee Tax Revenue Tracker](#) keeps tabs on the state's monthly tax collections and how they stack up to estimates budgeted at the start of the fiscal year.

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2. **Senate Finance, Ways, and Means Committee.** Testimony from Butch Eley, TN Commissioner of Finance and Administration. [Online] May 28, 2020. Recorded video available at http://tnga.granicus.com/MediaPlayer.php?view_id=431&clip_id=23017.